BUILDER

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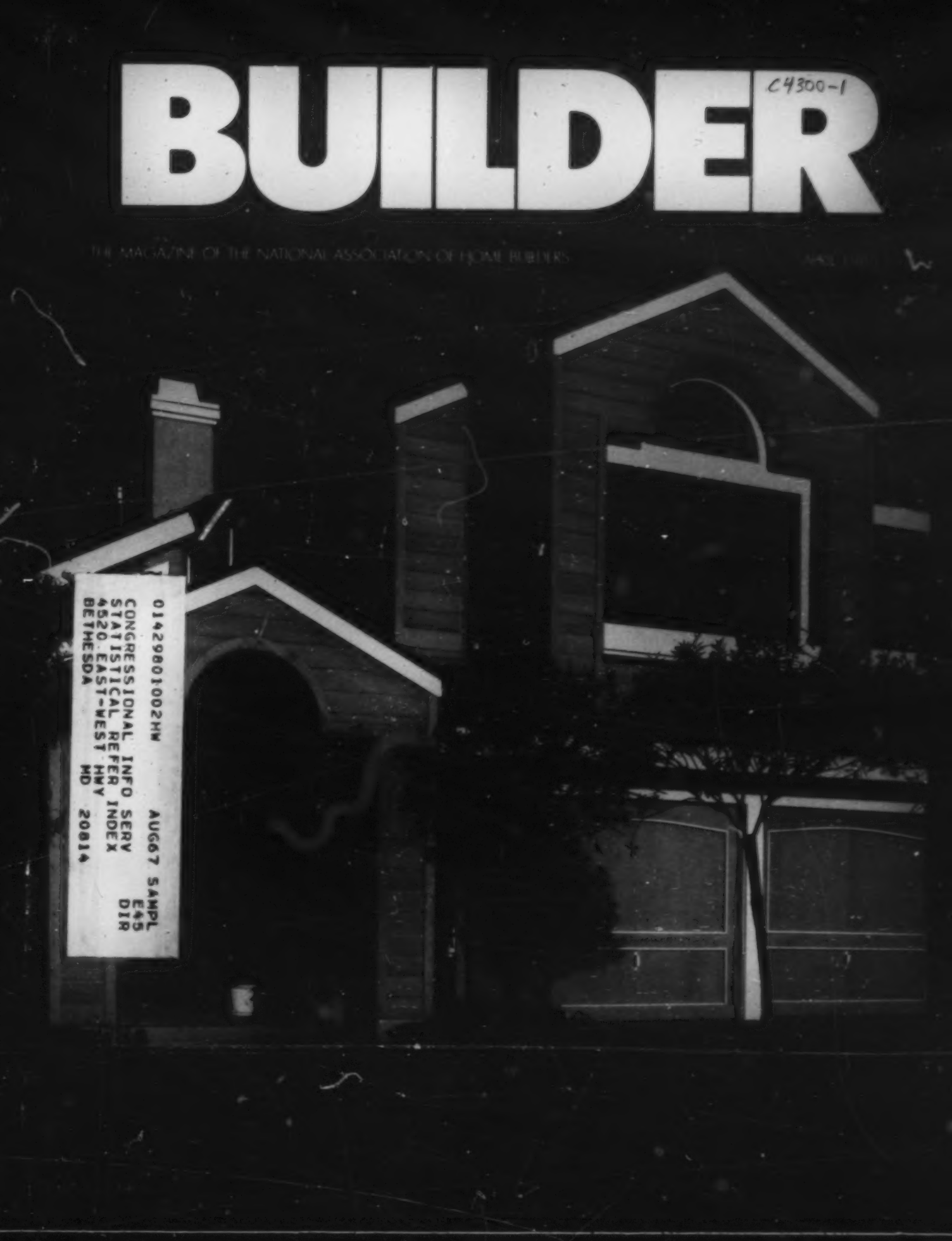
THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS



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VOLUME 8, NUMBER 4 ■ APRIL 1985

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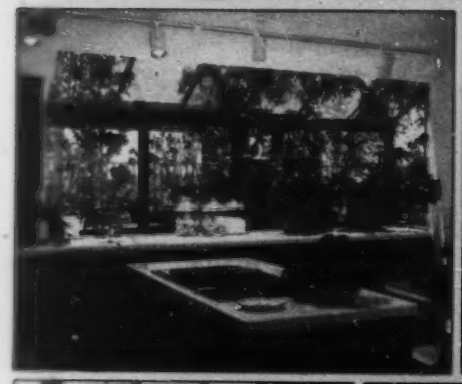


88—HOT BUTTONS
What features turn on buyers, particularly move-up buyers? That's what our eighth annual home buyer survey was designed to determine. And the results are must reading for builders who want to build bigger, better houses.
(Cover: Stoneybrook, Mission Viejo, Calif. Photo: Copyright 1984 Robb Miller)

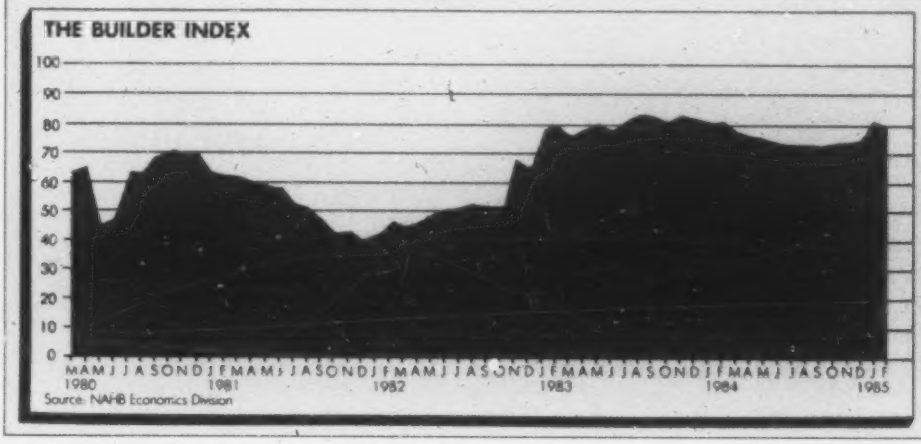
108—DESIGN WORKSHOP
The first part of a series on design ideas for detached housing focuses on an American classic—the ranch or rambler. Prepared with William Devereaux, AIA, Berkus Group Architects.

114—NEW BREED
Five profiles of builders—all under the age of 40—who've won national reputations. They've each used different strategies, but all are smart, tough and aggressive.

124—PROJECT OF THE MONTH
Everybody looks to the sunbelt for growth opportunities. Well, almost everybody. Doug Main and his father, William, headed north to Alaska, where they introduced, of all things, California-inspired houses.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION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1985
Source: NAHB Economics Division

The BUILDER Index slipped a bit in February to 80.20. Builders' expectations weren't quite as rosy, and interest rates were slightly higher.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Rose Colored Glasses

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Spring seems a season of great promise for the housing industry. But, like it or not—or believe it or not—a certain uncertainty hangs over the economy. It's uncertainty caused by rapidly increasing credit market debt, huge deficits, an ever increasing trade deficit and an overvalued dollar.

Builders, however, don't seem too worried about what's troubling the economists. Instead of worrying about a possible financial collapse, builders are responding to stronger traffic and improved sales (see BUILDER poll next page). They feel enthusiastic and confident.

As a matter of fact, most Americans aren't terribly concerned about the huge deficits. They see the economy expanding and more people working and conclude things will get better, not worse. And builders, being an optimistic group, see it the same way.

Therefore, it falls on economists like me to stir the waters and to look ahead. In looking ahead, I look at one thing in particular: data. The data may or may not lie, and it may or may not tell the truth. But it is the best way to gauge the future.

Right now 1985 looks good, certainly better than we thought six months ago. But this rosy glow shouldn't mask some problems facing our industry.

First and foremost is our national debt. It is clearly out of control. There is no need to rehash all of the information. Just consider that by the end of this decade we will pay $230 billion a year in interest on the debt. That is 17 percent of the total budget, and 2.5 times as much as was spent on all new housing construction last year.

Government expenditures have increased at an unprecedented annual rate of nearly 20 percent during the past five years, or about twice as fast as growth in the gross national product.

In addition to spending too much, we are importing too much. As a result industrial production isn't as strong as it should be during a recovery. This in turn retards U.S. employment, is responsible for nonimprovement in the construction of industrial buildings and creates an enormous trade deficit.

At the same time we're importing goods, we're also depending on foreigners to support the deficit. Last year some $100 billion in foreign capital was attracted here—in large part because our interest rates are high. The withdrawal of that money would have a negative impact on our credit markets, even though it currently helps keep inflation down and supports the tourist industry overseas.

Another problem: an explosion of the credit markets. Last year credit grew by 14 percent, considerably more than the growth of GNP. Most of that increase was in the short-term market. (In the mortgage market that meant more variable rate borrowing.) That took place in combination with a trend toward less equity financing and a decline in the equity base of American corporations. All of this eroded the equity position of financial institutions.

The increase debt burden is due, in large part, to the continual interference of the government in the financial markets. The federal government has monopolized the bond market; and state and local governments are continually in the marketplace as well.

Last year, the mortgage market reached a new record of $205.8 billion, of which 70 percent ($144 billion) was in residential mortgages. The mortgage market took 26 percent of the total

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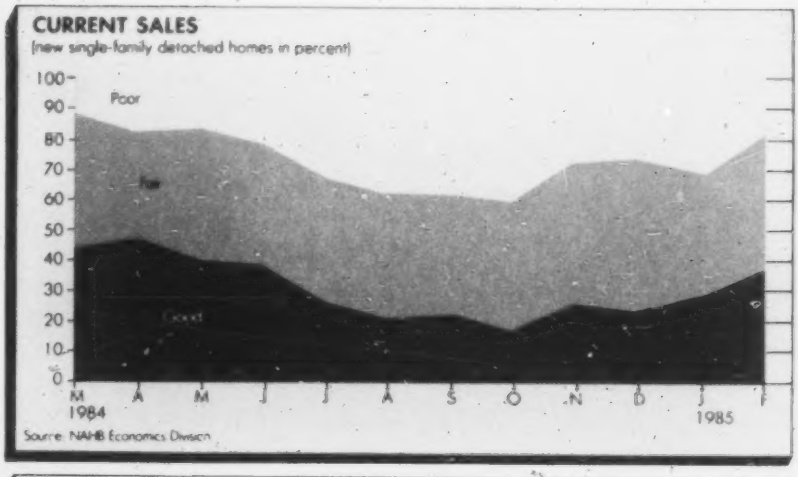
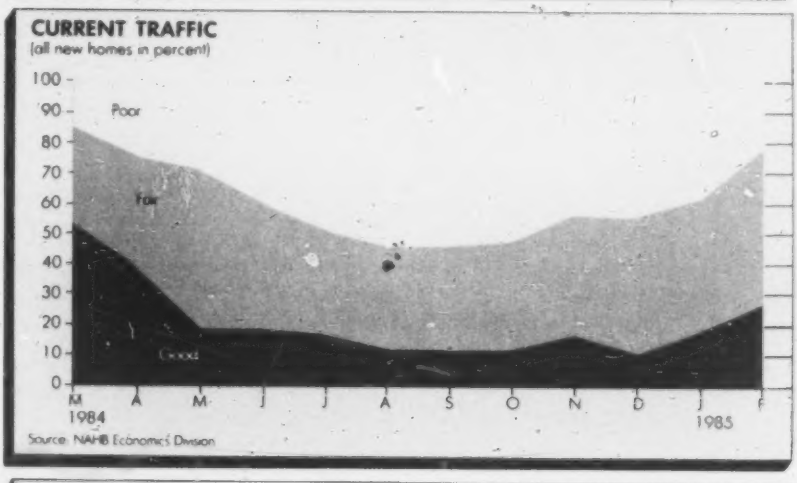
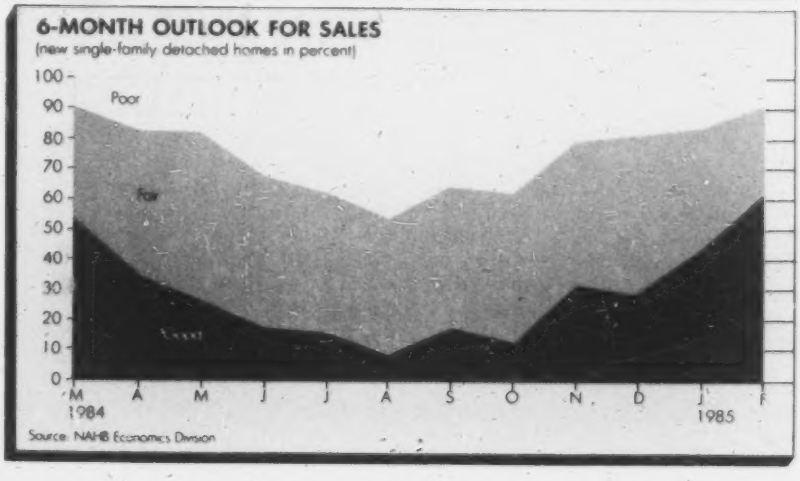
OUTLOOK/BUILDER POLL







FAST TRACK

A Nebraska builder best summed up the results of the February BUILDER Poll: "We're on the right track now," he said. And, if the poll is correct, housing will be rolling on a very fast track indeed for at least another six months.

According to the poll, current new single-family home sales (top chart) are about as good as they were last spring, when they were quite good. Particularly strong are new home sales in the Northeast and West. In the Northeast, 60 percent of the builders surveyed said sales were good, 40 percent said they were fair and *none* said they were poor.

Interestingly, sales generally improved more than traffic (middle chart) indicating that most prospects are serious about buying.

The most spectacular improvement, however, occurred in builders' six-month sales outlook (bottom chart). In February, 63 percent of the builders polled rated the outlook for future sales as good. That was the most optimistic outlook since 1977. In addition, only 8 percent expect poor sales, and only twice in the last eight years has that figure been lower.

Why the optimism? A builder in Maine explained it this way: "As usual, interest rates and the economy are making it all happen."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

HIKE COULD BACKFIRE

The Reagan Administration's proposed hike in the VA loan origination fee would end up costing the government more than it would earn, according to the Congressional Budget Office (CBO). The proposed increase to 5% of the loan amount from the current 1% may increase the default rate and default cost when the fee is financed as part of the loan. However, CBO calculates that the proposed increase in the FHA mortgage insurance premium to 5% from 3.8% wouldn't be big enough to have a significant impact on loan originations or on defaults.

VA CLAIMS UP

Claims filed by lenders against the VA's home loan guarantee program climbed 13% last year to 25,391. However, it is not known when the defaulted loans were originated. Altogether, VA guaranteed nearly 182,000 home loans last year, a drop of 20% from the year before.

SYNDICATION SLOW-DOWN

The Treasury Department's tax simplification proposal helped slow down public real estate syndication sales late last year, but 1984 was still a record. The tax plan probably cost public syndicators up to $100 million, or about 10% of the money raised in the fourth quarter, according to Stephen Roulac & Co., a San Francisco-based real estate consulting firm. However, the full impact of the proposal is expected to be felt in the first half of this year. Last year public real estate syndications raised $5.7 billion in limited partnerships and real estate investment trusts (REITs), up 19% from the previous year. But the growth rate was much slower. Despite the slowdown and tax uncertainties, the company believes "real estate securities is still a viable business offering tremendous potential."

MORE COMPUTERS

FHA and VA may be about to climb aboard the computer bandwagon. Both reportedly are drafting proposed regulations to allow private computerized loan systems to accept and process FHA and VA loan applications. But they probably won't be able to close the loans—that, presumably, still would be the province of traditional lenders. The VA expects to have its proposed regulations out as early as this month.

ALIVE AND WELL

Fixed-rate mortgages are making a comeback but ARMs aren't dead, say mortgage finance experts. Fixed-rate loans accounted for 85% of mortgages originated in December by the 10 largest mortgage banking firms, according to a survey by the Mortgage Bankers Association. That's a big jump from last summer when only 30% to 40% were fixed-rate. But the biggest surprise was the popularity of 15-year fixed-rate loans, which accounted for 12% of December originations.

ZERO POPULATION GROWTH

The U.S. appears to be heading for zero population growth with a projected growth rate of less than 1% for the 1980s, according to a recent report by the Urban Land Institute. But some age groups will grow more than others, indicating that housing demand will be highest in the move-up and retirement markets. During this decade, the number of aduits aged 35 to 44 will increase by 12 million, twice the growth of young adults 25 to 34. The number of empty-nesters aged 45 to 54 is projected to rise by only 2.5 million while those aged 54 to 64 will shrink in number by about 3%. The retired and elderly population, however, is increasing faster than the population as a whole. Those aged 65 and over should grow by about 25%, or 6.3 million.

THE YENS HAVE IT

The Federal National Mortgage Association (Fannie Mae) has made its first foray into the Euroyen market to expand its investor base. Fannie issued debentures totaling 50 billion Japanese yen (roughly $200 million). The seven-year debentures were offered exclusively to overseas investors at par with a coupon rate of 6.875%.

RESALES CONTINUE TO CLIMB

Existing single-family home sales increased in January for the fourth straight month, reported the National Association of Realtors (NAR). January sales hit an annual rate of 3 million, the highest level since last April. The January pace was 4.5% above the revised December rate and 3.8% higher than the sales rate a year earlier. The inventory of existing single-family homes for sale climbed to a 10-month supply at the end of January, up from a 9.4-month supply a month earlier. NAR also reported that the median price of existing single-family homes sold in January was $74,300—$2,200 or 3% higher than the revised December median. The January price was 5% above the median a year earlier.

CONTINUED FROM PAGE 11

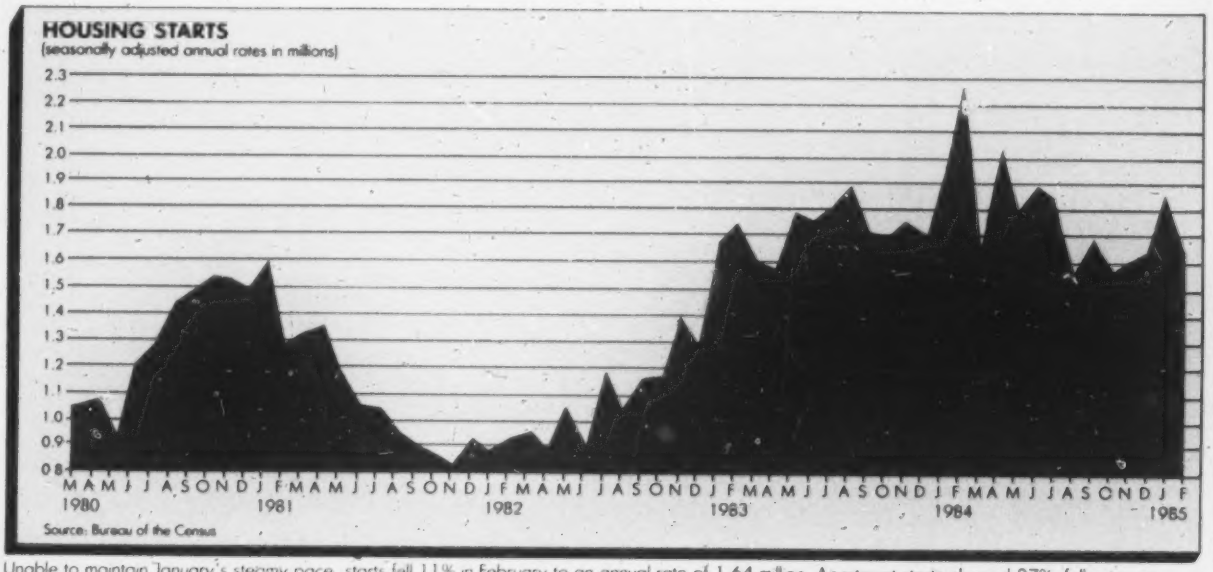
$805.2 billion raised in the credit markets. Our tax structure favored borrowing, and deregulation triggered the expansion of the debt. Now the risk has shifted away from financial institutions to households.

As it now stands there is hardly any question that recovery and prosperity cannot continue indefinitely with the deficit and trade balance raging out of control. That may be a gloomy forecast, but don't blame the economists. All we do is raise the issues. It's up to the politicians to do something about them.

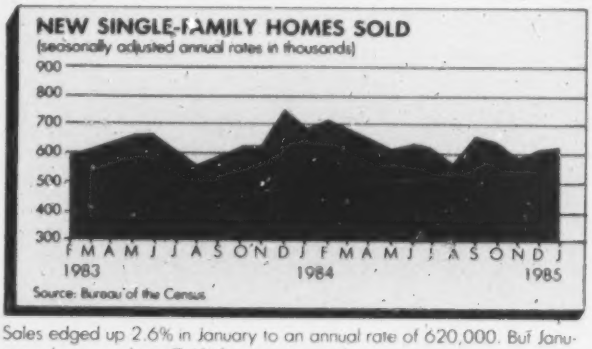
Today we face much greater downside risks than we did a year ago. There's no way in the world that we can prosper by spending ourselves silly. And that is precisely what we've been doing.

We will probably muddle through this year, but the signs are quite clear that we cannot extend our debt much more without eventually causing a monetary and financial crisis. For those who doubt this, it's time to re-read some economic texts.

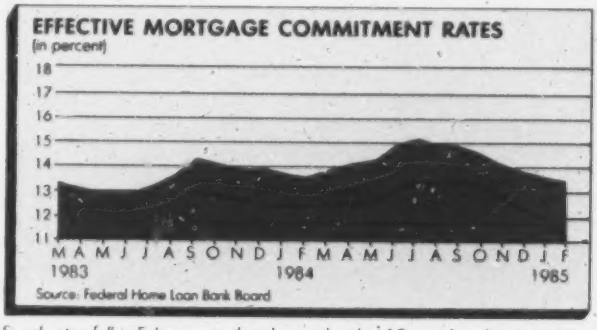
OUTLOOK/STATISTICS



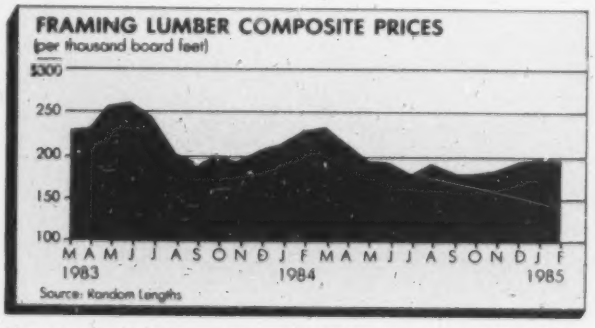
Unable to maintain January's steamy pace, starts fell 11% in February to an annual rate of 1.64 million. Apartment starts plunged 37%, following an astounding 68% jump the month before, but single-family starts rose 5%. Total February starts were down 26% from the 2.2 million pace a year earlier.



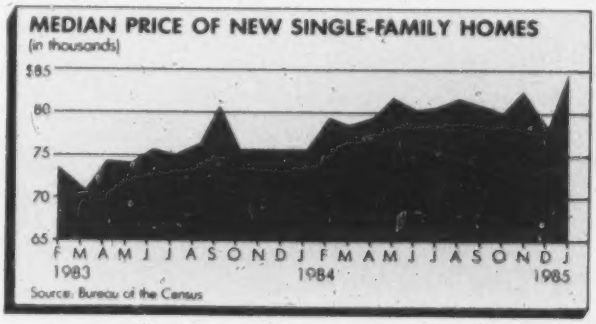
Sales edged up 2.6% in January to an annual rate of 620,000. But January sales were down 7.6% from a year earlier.



Fixed rates fell in February to their lowest level in 18 months, dropping 19 basis points to 13.47%. It was the seventh straight decline. Uncapped adjustable rates fell 12 basis points to 11.63% in February.



After rising for three consecutive months, lumber prices dipped 3% in February to $193 per thousand board feet. The February price was 15.7% lower than a year earlier.



The median sales price of new single-family homes shot up nearly 8%, or $6,200, in January to $84,500 after falling $4,000 (revised) in December. The January price was $8,300, or 11% higher than a year earlier.

NEWS

MARKETING

TEXAS: AFTER THE RISE A VERY BIG FALL

Job hunters in Detroit—including ex-builders—used to scan classified ads in the Houston papers looking for work. Now, it's likely to be the other way around.

It's no secret that Houston, after riding high in the early 1980s when the rest of the nation was in the throes of recession, has dropped like a stone along with the oil and gas industries.

Though less married to oil, the rest of Texas, including mighty Dallas, hit the skids last year—a year later than Houston did—but the fall, which is expected to continue throughout this year, shouldn't be as precipitous.

Though down, Texas is far from out. It produced more housing than any other state last year. And Dallas should remain the biggest housing market in the land despite a projected 19 percent drop in starts this year.

Houston, too, in spite of all of its problems, remains a bellwether market. It was the fourth largest housing market last year, down from number one in 1982. But it will take several years to regroup from its astronomical rise and equally astronomical fall.

Still depressed, Houston seems to be bottoming out, but there is some dispute about just where the bottom is. NAHB's forecasting service predicts total Houston starts will turn up slightly—about 5 percent—this year after dropping 47 percent last year (see table). But a prominent Houston real estate research firm, American Metro Study Corp., sees starts sliding another 20 percent this year.

"I'm convinced we're at the bottom," says Michael Inselmann, president of American Metro. "Total starts in Houston will be down again this year and we won't see any increase in production, but we will see an increase in the absorption of inventory."

Because single-family production dropped drastically last year, inventory is only slightly above normal, holding at a seven to eight-month supply. As a result, Inselmann predicts single-family inventory will be back in balance by summer and builders will be starting new projects.

But the multifamily market, which caused most of the problem in the first place, has a longer row to hoe. Inselmann predicts multifamily starts, which shot up 112 percent in 1982, will sink by a third this year after being chopped in half last year.

"It needs to be that way," Inselmann said. "We need a further slowdown in multifamily construction to get the market back in balance."

Though up to a quarter of all rental apartments in Houston are empty, Inselmann said the absorption rate is holding at around 14,000 units a year and starting to inch up.

But there still are too many apartments being built. Why the masochism? "Lenders still are pushing money at the apartment market," according to Donald Clayton, a researcher at American Metro. And "overly optimistic" developers still are willing to borrow it.

The rental apartment glut has been a boon to Houston renters and a thorn in the side of condo and low-end single-family builders.

Apartment rents are at 1982 levels or lower, says Clayton. "There are some incredible deals." Imaginative marketeers have graduated from offering one or two months free rent and no deposit to free furniture and VCRs. As a result, renters are sitting pretty with little incentive to become first-time buyers.

Gemcraft Homes is one single-family builder that has adjusted to the situation by shifting from starter homes to the middle of the market. Also, the company no longer builds on spec in Houston. But it still does in Dallas-Fort Worth—the new jewel in Gemcraft's crown—and San Antonio.

"Builders who pulled in their reins and stopped building on spec are doing well," said Andrew Zdobylak, president of Gemcraft. "Sales are picking up." He was feeling particularly upbeat because a new project that opened earlier this year in Houston had 68 sales in the first few weeks.

Altogether, the company plans to build a little more than 1,000 detached houses in Houston this year, slightly more than last year.

Giant Houston-based U.S. Home Corporation, which has been having its

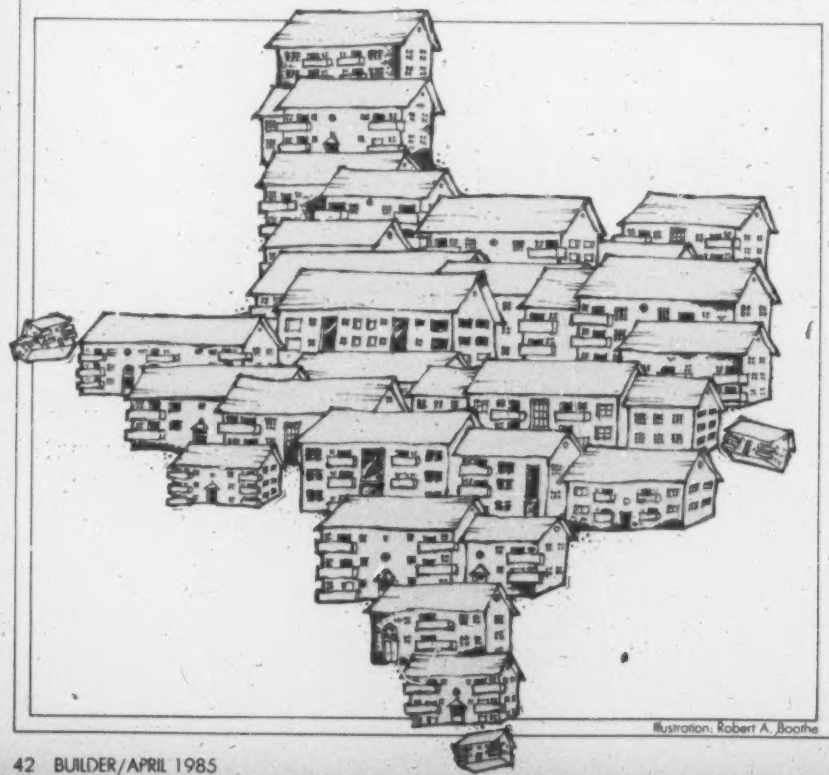


Illustration: Robert A. Boothe

troubles lately, is less optimistic. "The Houston housing market is depressed across the board," said spokesperson Kelly Somoza. In 1982 U.S. Home built roughly 5,000 homes in Houston, but "we think Houston is now a 1,500 to 2,000-unit a year market for us."

The company doesn't foresee an upturn in the single-family sector this year, "but in the long-run we believe it's a strong market," Somoza said.

But other Houston builders can't wait. Many have migrated to Dallas—just in time to catch the downturn there—or called it quits altogether. Among the larger companies that have stopped building homes in Houston during the past year are Wood Brothers, Texas Contemporary Homes, Genstar, Westbury Homes and Leatherwood Homes, reports Houston marketing consultant Edward Pond.

Although the Houston housing market is on its knees, the overall economy is beginning to show new signs of life. Nearly 27,000 net new jobs were created last year (the construction industry, however, lost 10,000).

That's a far cry from the 85,000 new jobs added each year during Houston's boom days but a definite turnaround from the 127,000 jobs lost in 1982-83. The shift has pulled the unemployment rate down a full three points from a high of 9.3 percent in 1983 to slightly more than 6 percent. In addition, the city is trying to diversify its economy, but that will take a long time.

Beginning to recoup one's losses, however, isn't the same as gaining new ground. As for the housing business, Zdobylak says Houston will be a tough market for two to three years to come, depending to a large extent on energy prices.

Dallas, on the other hand, isn't largely dependent on energy and is proud of it. True, the metropolis has been on a downswing since last year, but its troubles are due more to unsustainably high growth rather than a sick economy. The numbers tell the story.

Two years ago housing starts erupted by an incredible 125 percent, according to NAHB. That surge was particularly awesome coming on top of a 68 percent jump in 1982. Small wonder starts dropped 26 percent last year and are expected to sink another 19 percent this year.

The drop last year was anticipated because the 112,000 starts level the year before "was an aberration—unsustainably high," said Simon McHugh, executive vice president of the Dallas home builders association. "Starts may drop a bit more this year, but we're still producing more housing than anywhere else."

Housing market conditions are similar to Houston's, though less severe. Rental apartments are overbuilt. The for-sale market is down—though less than apartments—because the rental market is so soft and because pent-up demand for starter homes, which sparked the 81 percent rise in 1983 single-family starts, is petering out.

Nash Phillips/Copus is another single-family builder that has switched gears along with the market. NPC, which has been in the Dallas-Fort Worth market for two years, probably won't open any more first-time buyer projects this year, said Jim Siepiela, president of the Dallas-Fort Worth division. "We'll concentrate on the $90,000 to $100,000 detached market."

Although Siepiela says his company's single-family sales are up—60 units were recently sold in one project in five weeks—he thinks Dallas will slow down some more, "but not come to a halt like Houston. The Dallas economy is much more diversified."

NPC has built only one apartment project in Dallas and isn't planning any more. And it's a good thing.

Multifamily starts in Dallas-Fort Worth went into orbit with a 151 percent jump in 1982, followed by a phenomenal 175 percent leap in 1983, according to NAHB statistics. Then, the fall. Multifamily starts fell by a third last year and are expected to dive another third this year to roughly 33,000.

But that is up substantially from the 1982 level and well over twice as many multifamily units as Houston is projected to produce this year.

All in all the fall off isn't a bad

HOUSING STARTS: TEXAS, DALLAS, HOUSTON
(annual totals and percent change from previous year)

Housing starts	1981	1982	1983	1984 (Estimate)	1985 (Projection)
Texas					
Single-family	−2%	3%	29%	−26%	5%
	120,000	124,000	159,800	118,500	125,000
Multifamily	12%	73%	43%	−32%	−16%
	63,500	110,000	157,600	107,200	90,000
Total	2%	28%	36%	−29%	−5%
	183,500	234,000	317,400	225,700	215,000
Dallas-Fort Worth					
Single-family	1%	29%	81%	−21%	−11%
	20,400	26,400	47,700	37,800	33,500
Multifamily	−25%	151%	175%	−30%	−26%
	9,400	23,600	64,800	45,100	33,400
Total	−9%	68%	125%	−26%	−19%
	29,800	50,000	112,500	82,900	66,900
Houston					
Single-family	20%	15%	−4%	−40%	13%
	27,720	31,800	30,450	18,190	20,610
Multifamily	4%	112%	−19%	−55%	−8%
	16,580	35,170	28,330	12,690	11,710
Total	14%	51%	−12%	−47%	5%
	44,300	66,970	58,780	30,580	32,320

Source: NAHB Forecasting Service

thing because vacancies are up and absorptions are down. The vacancy rate for rental apartments in Dallas-Fort Worth has climbed to 10 percent—half that of Houston's—and 36,000 units stand empty. What's more, the absorption rate is expected to fall from 40,000 units last year to 25,000 this year, according to Ron Witten, president of M/PF Research.

Rents have stopped rising but haven't gone down, and renters still have to cough up a deposit.

"Multifamily starts need to drop to less than 20,000 a year before the market will improve," Witten said. "But that's still a fairly active building pace." He believes the overbuilding is temporary and that the adjustment to a lower starts level shouldn't be too painful.

McHugh, of the Dallas home builders association, also thinks the slowdown in multifamily construction is necessary. "We don't want to get too big too fast. The roads can't keep up now."

The overall economy in Dallas-Fort Worth is slowing but still growing. Net new jobs, which totaled about 65,000 in both 1983 and 1984, are expected to decline to 50,000 to 60,000 this year. The unemployment rate has risen lately but remains substantially below the national average.

"We see 1985 as fairly strong for Dallas-Fort Worth but not as strong as the last two years," Witten said. "We're pretty optimistic."

The other major Texas housing markets are in the same boat. Rental apartments are overbuilt in San Antonio, Austin and El Paso, and that has affected their single-family markets.

San Antonio was the only place starts went up last year, thanks to a barn-burning single-family market, but it too is expected to decline this year.

The multifamily market in San Antonio is "highly saturated with heavy vacancies," said John Willome, president of Ray Ellison Homes. "We expect the single-family market to soften." He sees the company's total production declining about 9 percent from last year's searing pace.

Carol Anderson, news editor

ENERGY

NO FURNACE, BUT HOUSE COZY AT –40 DEGREES F.

In cold Colorado, husband and wife energy experts Amory and Hunter Lovins recently built a remarkable house that cuts energy needs to the bone. While admittedly a one-of-a-kind structure, the combination residence and research institute near Aspen showcases energy features the Lovins say production builders can use at modest additional cost.

The 4,000-square-foot superinsulated, solar and earth-sheltered home—designed by the Lovins and the Aspen Design Group—has no conventional heating system, and last winter, when temperatures plunged to –40 degrees F., the Lovins hardly noticed.

In addition to no heating bills (there is a wood-burning stove, just in case) the house consumes less than a tenth the usual amount of electricity and a third the normal amount of water.

These savings were achieved for about $6,000, or a 1.2 percent increase in the home's direct construction cost, which totaled about $500,000, or $130 per square foot, excluding land and financing. Since it is not uncommon for monthly energy bills to average more than $600 in comparably sized new homes, Amory Lovins calculates that his $25 a month electric bill (two-thirds for office equipment) and zero heating bill will yield a one-year payback on his energy investments.

At officially projected energy prices, he expects energy savings to repay the entire construction cost of the home within 40 years. The home was built, however, "with the next millennium's archeologists in mind," he said. The massive stone structure should last for centuries.

Lovins believes many of the design concepts and systems in the house could be copied by production builders. "The superinsulation and airtight construction, the R-5.3 windows, a floor plan that gets solar light and heat to the north side, and most of our electricity-saving features are readily adaptable to tract homes—all with

CONTINUED ON PAGE 50

Photos: Steve Andrews

Located high in the Colorado Rockies, this energy-efficient 4,000-square-foot home has no conventional heating system. Superinsulation, earth-sheltering, massive stone construction and passive solar heating do the job and then some.

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about a one-year payback because there is no need for a furnace."

Lovins began with three of the four key elements in any super-insulation package: exceptionally high insulation values, airtight construction and controlled ventilation. A fourth element that's usually included—a backup heating system—was left out entirely, saving about $6,000. Engineering calculations convinced the local building department that no furnace was needed to meet a Uniform Building Code-required ability to maintain 70 degrees F. 3 feet off the floor. The bank agreed, to the tune of a $260,000 loan.

In the R-40 exterior walls, sheets of rigid foam are sandwiched between two layers of rock-covered masonry. The cedar roof contains R-60 foam insulation and is covered with a waterproof membrane and 1 foot of gravel and earth. Foundations below grade are insulated to R-25.

Vapor barriers, tight windows, earth sheltering and careful sealing of all penetrations yielded an air infiltration rate of 0.1 air change per hour. That's about 10 times tighter than conventional construction, yet controlled ventilation and operable windows assure good indoor air quality. Four small heat exchangers in the baths and kitchen and a larger system exhaust indoor air and pre-heat fresh air.

One of the most unusual conservation features is a new window product. The windows include a low-emissivity suspended film plus inert argon gas in the twin airspaces. The result: R-5.3 windows. "The windows are cheaper than good triple-pane units but have twice the insulating value," Lovins said.

Energy-conscious designers often eliminate north windows, but Lovins says the new high-R windows make the sacrifice unnecessary. Balanced natural lighting in this home has been a significant contributor to low electric bills.

Most superinsulated homes have only a modest amount of south-facing glass for daytime passive solar heating. Lovins wanted more. Twenty-five percent of the floor area is in south windows, and he says that satisfies the home's meager heating requirements.

The combination of direct-gain windows, a large greenhouse, and half a million pounds of masonry in the structure provide the collection and heat storage required to take the home through the winter.

"For extra safety margins, the house purposely is overglazed, overmassed and equipped with oversize vents," said Lovins. "It actually provides about a third more heat than we need; we simply vent the surplus."

While many passive solar designers have recently been either minimizing or eliminating large overhead glazing areas, the Lovins needed sloped glass—roughly 700 square feet of it—in order to grow vegetables, tropical fruits and fish year-round in their 900-square-foot central greenhouse.

In summer the combination of special glazing, large operable vents and low nighttime temperatures at the 7,100-foot elevation prevents overheating. (At lower altitudes, the sloped glass would have to be well-shaded, or its angle increased toward vertical, or both.)

Energy efficiency in the home extends beyond space heating. Hot water is saved by low-flow shower heads that propel a miserly but comfortable one-half gallon of water per minute. Special toilets and sinks further reduce water use and the size of the septic system.

Cutting electrical consumption by 90 percent in today's production homes is a very reasonable goal, according to Lovins. Quadrupled-efficiency light bulbs, automatically dimmed lights and an innovative refrigerator are just a few of the ways he achieved that goal in his own home.

The Lovins are continuing to search for new ways to save energy as part of their work at the Rocky Mountain Institute, the nonprofit research and educational foundation established to foster efficient resource use. A 16-page booklet describing the home and its design features is available for $5 from Rocky Mountain Institute, Drawer 248, Old Snowmass, Colo., 81654.

Steve Andrews, a Denver-based free-lance writer and passive solar design consultant

MARKETING

ARMs, INCOME GAINS BOOST AFFORDABILITY

More people could afford to buy new homes last year than at any time since 1978, only many of them didn't do so.

According to a U.S. Housing Markets report published by the mortgage banking firm Lomas & Nettleton Co., the number of households that could qualify to buy a conventionally financed new home jumped 20 percent last year. It was the second year in a row for strong gains in affordability. Lomas & Nettleton measures affordability by dividing average income by average mortgage payments.

In the turnaround year 1983, the number of households that could qualify for a new house shot up by 50 percent—the strongest gain since at least the 1920s. Improvement wasn't as spectacular in the resale market. Affordability rose about 15 percent in both 1983 and 1984 because resale prices jumped in 1983 to recoup recession concessions.

Last year's rise in home affordability was due to an unusual rise in personal income, a sharp swing to adjustable rate mortgages (ARMs) and stable housing prices, according to the report.

The average conventional mortgage payment for a newly purchased home remained at $925 a month for new homes and $790 for existing homes, including taxes and insurance. Although average new home prices increased 3 percent last year (less than inflation), increased use of lower rate ARMs held average mortgage payments to the 1983 level.

But payments were easier to make last year because average household income climbed 8.5 percent to $34,600. After subtracting for inflation, real household income rose 4.5 percent, the biggest spurt since 1973.

As a result, mortgage payments as a proportion of income fell to an average of 32 percent for new homes, down from 35 percent in 1983, and to 27 percent for existing homes, down

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from 30 percent. These are the lowest ratios since 1978.

For the third straight year St. Louis was the most affordable market. There, conventional mortgage payments accounted for only 21.6 percent of income—25 percent less than the national average. Indianapolis was a close second with a 21.7 percent ratio.

Improvements in affordability were greatest last year in Indianapolis, Denver and Houston, mainly because those markets softened and housing prices declined. Prices of both new and existing houses dropped 7 percent in Houston—the largest decline among the 27 markets surveyed. Prices fell 6 percent in Indianapolis.

The least affordable market last year—also for the third consecutive year—was San Diego with a 38.2 percent ratio. Its average house price was 40 percent above the national average, but income there was only 2 percent higher. The next least affordable market was Los Angeles with a 37.2-percent ratio.

Boston, where house prices jumped 12 percent last year, was the only major area where affordability actually deteriorated.

So if housing was so affordable last year, why didn't more people buy? Apparently, low expectations for appreciation dampened demand.

In 1979, for example, when the mortgage payment-to-income ratio was somewhat higher than last year, sales of both new and existing homes were higher because the average home was appreciating 15 percent a year.

"This suggests that the payment-to-income ratio must be significantly lower than in the 1970s to provide a comparable stimulus to home purchase" if inflation and appreciation rates stay down.

However, it is becoming increasingly difficult to squeeze out more affordability. The ARM stimulus is over, in fact ARMs are losing market share, and real income growth isn't likely to take off again any time soon. So it seems further improvements in affordability will depend heavily on what happens to fixed-rate mortgages.

HOUSING AFFORDABILITY IN SELECTED MARKETS

Market	1983	1984
Atlanta		
Average household income	$34,200	$37,250
Average home price	$97,500	$98,300
Payment as percent of income	33.9%	29.7%
Boston		
Average household income	$38,750	$41,750
Average home price	$91,000	$102,500
Payment as percent of income	31.0%	32.1%
Chicago		
Average household income	$37,600	$39,800
Average home price	$92,800	$90,700
Payment as percent of income	30.3%	26.9%
Dallas-Fort Worth		
Average household income	$36,100	$38,950
Average home price	$104,500	$109,200
Payment as percent of income	34.6%	32.7%
Denver		
Average household income	$38,050	$41,000
Average home price	$119,300	$115,400
Payment as percent of income	36.5%	31.1%
Houston		
Average household income	$39,350	$41,650
Average home price	$101,900	$94,800
Payment as percent of income	32.8%	27.1%
Los Angeles-Orange Co.-Riverside		
Average household income	$36,350	$39,200
Average home price	$133,500	$132,000
Payment as percent of income	40.4%	37.2%
Miami-Fort Lauderdale		
Average household income	$32,500	$35,000
Average home price	$80,600	$84,700
Payment as percent of income	29.5%	27.8%
Minneapolis-St. Paul		
Average household income	$37,300	$40,200
Average home price	$95,300	$103,400
Payment as percent of income	28.7%	27.9%
New York City area		
Average household income	$40,350	$44,300
Average home price	$114,600	$126,500
Payment as percent of income	38.9%	36.6%
Phoenix		
Average household income	$32,200	$35,400
Average home price	$97,100	$101,400
Payment as percent of income	32.3%	30.9%
San Francisco Bay area		
Average household income	$39,900	$43,750
Average home price	$144,200	$143,400
Payment as percent of income	40.4%	36.7%
Seattle-Tacoma		
Average household income	$33,050	$35,250
Average home price	$96,100	$97,800
Payment as percent of income	33.3%	30.2%
Tampa-St. Petersburg		
Average household income	$27,350	$29,700
Average home price	$76,400	$78,100
Payment as percent of income	30.3%	27.5%

[1] Refers to conventionally financed new and existing homes sold
Source: U.S. Housing Markets, Lomas & Nettleton Co.

While homes became more affordable to buy last year, the rent component of the Consumer Price Index (CPI) increased 5 percent last year, marking the third straight year that rents rose slightly faster than inflation.

The biggest rent increase last year was 9 percent in San Diego, which followed a 9 percent rise the year before. Other areas with significant rent increases were San Francisco, up 8 percent, Los Angeles and Kansas City, Mo., up 7 percent, and Philadelphia and Washington, D.C., up 6 percent.

Houston once again was at the opposite extreme. Rents there dipped 2 percent—the first rent index decline in a major market in many years. Rents rose less than 1 percent in Miami and less than 2 percent in Portland, Ore.

Carol Anderson

NEWS

MARKETING

NORTHEAST TOPS RESALE REBOUND

Despite slightly higher mortgage rates, the number of resales edged up 0.7 percent in the fourth quarter of last year compared with the same period a year earlier. And in 13 states resales jumped by more than 10 percent, reported the National Association of Realtors (NAR).

New Hampshire experienced the biggest proportional increase in sales of existing single-family homes, condos and cooperatives during the period with a 31 percent annualized increase followed by Hawaii, up 21 percent, and Maine, up 20 percent.

"The significant improvements in home resale activity in New Hampshire and Maine are particularly noteworthy," according to NAR, "because the northeastern housing markets experienced a less severe downturn during 1982 than did housing markets in other regions, but the recovery in the Northeast has been more rapid than in most other areas."

Other states showing marked increases in resales from fourth quarter to fourth quarter are: Connecticut, up 20 percent, and Alabama and Montana, both up 16 percent. Several midwestern states didn't do badly either. Resales rose 14 percent in Indiana, 13 percent in Illinois and 12 percent in Iowa.

However, not every state was a winner. Resale activity declined from fourth quarter to fourth quarter in 15 states. Biggest losers were the oil-producing states: Oklahoma plunged 26 percent and Louisiana dropped 21 percent. Resales in Texas didn't do as badly, but they did shrink by 7 percent.

NAR also reported that, although the median sales price of existing single-family homes rose only 3.4 percent nationally during the period, several markets—especially in the Northeast—saw hefty price increases.

The biggest jump was in Boston where the median resale sales price rose 23 percent to $104,800, followed by New York City, up 14 percent to $107,800, and Rochester, N.Y., up 10 percent to $60,400.

By comparison, median resale prices increased slightly or even declined in a number of California markets where prices skyrocketed in the 1970s and the supply of resale homes is now plentiful.

For example, while the median resale home price in Anaheim-Santa Ana in Southern California was $130,600 in the fourth quarter of last year—the highest among the metropolitan areas surveyed—that figure was actually down 2.3 percent from a year earlier. And median resale prices dropped the most—7.5 percent—in another California city, San Jose. Still, its median price of $119,000 was the third highest nationally.

In other California markets, resale prices increased a slight 2.7 percent in Los Angeles to $114,500 and edged up 0.8 percent in San Francisco to $130,400. San Diego had the biggest increase, with a 6.4 percent jump to $104,900.

In Texas, Houston hemorrhaged the most. Resale prices there dropped 6.5 percent during the 12-month period to $74,800—the second largest decline among the metropolitan areas surveyed. But it was a different story in Dallas-Fort Worth where prices from fourth quarter to fourth quarter were up 6 percent.

TOP 10 STATES FOR EXISTING HOME SALES

(single-family houses, condos, co-ops)

State	Resales 1984 fourth quarter[1]	Percent change from fourth quarter 1983
California	372,600	2.2%
Pennsylvania	169,600	5.9
Texas	164,200	– 6.9
Ohio	141,200	7.2
New York	140,400	– 2.2
Michigan	137,900	0.1
Florida	131,600	– 0.8
Illinois	129,800	13.2
New Jersey	121,000	3.9
Virginia	101,400	– 7.3

[1]Seasonally adjusted annual rates
Source: National Association of Realtors

GOVERNMENT

ZONING BOARD RELATIONS MADE EASY

Changing demographics mean changing housing needs. That fact registered with home builders when the childless couples, the singles, the 45-year-old adult couples whose children had left home and the elderly started knocking on the doors of their model homes. But there's a large stumbling block—these changes are not acknowledged in most zoning codes and subdivision ordinances, and they may not even be perceived by local officials whose approval means life or death to planned developments. A problem? Certainly. Insurmountable? No.

Builders can do a better job of presenting their cases before zoning boards if they study the experiences of others who have succeeded. These builders have one thing in common: They attempt to cooperate with local government and avoid the confrontational approach.

Successful planning for zoning appeals requires early and close contact with local government staff. The staff will go through all of the local government requirements for a development, checking the builder's plans initially for conformity with the comprehensive plan and the zoning ordinance. When this initial review is completed the builder should know if there is a need for zoning relief and the time necessary to complete a zoning appeal. He also should have a much closer estimate of the costs of the development.

Builders who are consistently successful at zoning appeals, such as Bruce Blietz, president of the Blietz Organization, Inc., Evanston, Ill., suggest no quick tricks at this point. Blietz, whose company builds between 60 and 125 single-family, townhouse and condo units a year in the suburbs of Chicago, takes the consensus approach. After careful planning of each development, Blietz takes his proposal to the neighbors in the immediately surrounding community, often making door-to-door contact. He assures himself of neigh-

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thought that was deceptive—a failure to disclose a material fact," says Friedman. The home, which cost $88,000 in 1981, since has been devalued by the mortgage lender to less than one-third its original cost.

The OCA tried unsuccessfully to negotiate a settlement between the couple and HOW. (The couple is now suing the banker, the builder and HOW.) However, after the OCA considered taking action under the Deceptive Trade Practices Act, HOW voluntarily agreed to change certain practices in Montgomery County, where it insures 25,000 homes.

HOW agreed to share with homeowners any information on potential structural defects reported by HOW inspectors in the future. "The report was intended as an underwriting tool," explains HOW spokesperson Jane Moss Snow. "It was part of our builder evaluation process and not meant for the homeowner. We thought they [the OCA] overreacted on it."

HOW also agreed to alter its "take it or leave it" policy toward disputed repair claims. For instance, in the past if a homeowner alleged 10 defects, HOW would ask an independent consultant to determine if the defects were covered by the warranty. If the consultant determined that only six defects were covered, the claim would not be settled unless the homeowner signed a document waiving his right to the other four repairs. This provision is known as a "split decision."

In its agreement with the OCA, HOW agreed to revoke the split decision provision retroactively in Montgomery County. It will repair defects in eight homes there that its dispute settlement procedure had not required it to repair. "We think revoking the split decision is a positive step and will result in greater consumer confidence," says Snow.

The company also agreed to alter its advertising, which the OCA claimed misled customers. "HOW's brochure inferred that the company continually monitors insured homes during construction, which it doesn't do," says Friedman. "And it inferred that the homes it insured were of better quality than non-HOW homes, when in reality, its standards are consistent with local building codes."

Although HOW's agreement with the OCA only affects Montgomery County residents, Snow says the company is "studying the possibility of making this change nationally." Friedman says the OCA is looking into three other home warranty companies operating in the county, as well as plans offered by individual builders. "We want to determine if the problems we found are common throughout the industry."

June Fletcher

MANAGEMENT

COMPENSATION UP 27% FOR BUILDER EXECS

Salaries of top executives at home building companies are plunging, but that doesn't mean presidents and vice presidents are earning less than they did in 1980. Why? Because while salaries went down, bonuses went up. So, overall, chief executive officers are bringing home 27 percent more money than they were in 1980.

That is one of the findings of NAHB's *Builders Cost of Doing Business Study—1984*, a report that comes out about every five years and surveys builders on such far ranging topics as how much the company pays personnel to how much it pays for materials. It is, affirms Bill Triplett, NAHB's assistant director for business management, "the only effort in the entire industry to gather this data and offer home builders a benchmark to evaluate how they're doing in relation to others."

The survey findings are divided into both regional (Northeast, North Central, South and West) and company size (sales volume under $2 million, between $2 and $4 million, etc.) categories, so builders can compare, under a variety of headings, how they are doing with builders in similar situations.

For example, the study reveals that the most highly leveraged group of builders is that of middle-size (sales volume $4 million to $10 million) builders, who average a 5.2 to 1 debt to equity ratio. The least leveraged group is the smallest (less than $2 million in annual sales), which had a debt to equity ratio of 1.2 to 1. The national average, according to the survey, is 2.7 to 1. Big builders (more than $25 million in sales) are leveraged at 3 to 1. Regionally, builders in the West are the least leveraged.

As to expenses, among all builders regardless of size, general administrative expenses represent the lion's share (8.8 percent of total sales volume). The other expense categories are financing (4.5 percent) and marketing (3.3 percent).

The higher percentage of general administrative expenses has been true in the past five reports, Triplett points out, adding "This is the area where the builder pays least attention, yet this is where the biggest chunk of money is spent. If he paid more attention to bulk mail, automating for efficiency and improving procedures, a home builder could cut costs significantly."

Profitability is another important way of measuring one company's performance against another. Because of the elaborate tax laws affecting real estate and the home building business, *Builders Cost of Doing Business Study—1984* measured profitability by dividing before (rather than after) tax net income by net worth. The study's findings were that overall home builders in the 1984 survey enjoyed a 27.3

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TOP SALARIES

Position	1980 Salary	1980 Bonus	1984 Salary	1984 Bonus
Chief executive officer	$62,639	$52,824	$57,600	$84,068
Second top officer	46,328	24,785	43,389	28,424
Construction supervisor	25,494	6,810	25,751	5,410

Source: *Builders Cost of Doing Business Study—1984*

CONTINUED FROM PAGE 68

percent return on equity (profitability), which is a modest increase over the 1980 finding of 25 percent profitability.

The findings also suggest trends. The salary-bonus figures, for instance, suggest "a desire for greater flexibility," reasons Triplett. "Bonuses don't have to be paid unless the company has had a good year."

The 169 builders who participated in the survey averaged 15½ years in the business; they employed an average of 37 people. As to size, 57 percent took in less than $2 million in sales last year; 11 percent were between $2 and $4 million; 12½ percent were between $4 and $10 million; 11 percent were between $10 and $25 million and 8½ percent took in more than $25 million a year. Regionally, 51 percent of those surveyed came from the South, 21 percent from the West, 17 percent from North Central states and 11 percent from the Northeast.

Builders Cost of Doing Business—1984, which includes a worksheet to help builders figure out their comparative costs, is available through NAHB's bookstore at a cost of $14 for members, $18 for nonmembers.

Penelope Lemov, business editor

MARKETING

DUPLEXES WIN POPULARITY CONTEST

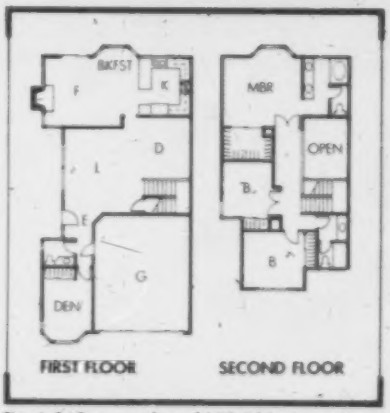
Large attached duplexes seem to be just what the San Diego market is after, and builder Pacific Scene is rushing to take advantage of their unexpectedly high popularity.

The company sold 53 units in two weeks—16 the first day—after its Summerhill project opened in mid-January. A total of 236 units are planned for the Encinitas site in north San Diego County.

"The large attached homes filled a void in the market," said Jay Summers, project manager. "Other attached homes in the area stop at around 1,500 square feet or where our's start. So our competition is single-family detached houses that cost about $20,000 more for the same square footage."

The three and four-bedroom, two and a half-bath duplexes have 1,504 to 2,083 square feet and are priced from $109,990 to $131,990.

After camping out for as long as a week, prospective buyers line up for the opening of Pacific Scene's newest duplex project near San Diego.



This 1,962-square-foot, $122,900 plan is the best-selling duplex at Summerhill.

The units proved so popular that 35 families camped out for the opening of phase one—some for as long as a week—and more than 1,000 people toured the models that first weekend.

Such an enthusiastic response prompted Pacific Scene to strike while the market was hot. It released phases two and three simultaneously two weeks later, and another camp-out was on.

In fact, the 14-year-old company registered its second best sales weekend ever in San Diego County when it sold 51 homes at six locations in late January. And Summerhill was the best seller. About half the purchasers there are first-time buyers. Especially popular was the project's Spanish Mediterranean theme. Architects Lorimer and Case designed the units.

The duplexes have two-car garages, Italian ceramic tile at entryways, formal dining areas, sloped ceilings and wood-burning fireplaces. Another sales boost: Buyers were able to lock in market mortgage rates for 150 days.

CONSTRUCTION

NEW WIRING SYSTEM MAKES HOUSES SMARTER

The Smart House project aims to graduate homes with brains.

Under the project, coordinated by the NAHB Research Foundation and supported by manufacturers, utility companies, trade associations and government agencies, a wiring system for new home construction is being developed that is intended to reduce building costs and expand the capabilities of houses to serve their buyers. The new

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BUILDER'S
1985 HOME BUYER SURVEY

HOT

Move-up buyers want bigger and better houses. But what, exactly, do they mean by bigger and better? That's what BUILDER's eighth annual home buyer survey determined.

LESLIE ENSOR STOCKMAN, DESIGN EDITOR with
JUNE FLETCHER, FEATURES EDITOR,
DEBORAH WOODCOCK, NEW PRODUCTS EDITOR

Sparks fly when a house presses a buyer's hot buttons. Hot buttons are the features and products that add perceived value to a house, that make it seem like an important step up for a home buyer. But knowing just which buttons really are hot isn't easy. And when housing climbs into the high-priced move-up categories, there are more and more buttons to press.

BUILDER's eighth annual home buyer survey zeroes in on move-up buyers, that is buyers of bigger, detached houses. A joint venture with George A. Fulton Research and Consulting, Fairfax, Va., the survey shows, among many other things, what size house buyers want, what they're willing to pay, why they want to move and which features turn them on.

The survey results are based on responses of 1,819 prospective new home buyers to a four-page questionnaire. The buyers were polled last fall at detached housing projects in seven major markets: the Virginia and Maryland suburbs of Washington, D.C.; St. Louis; New Jersey; Oklahoma; Dallas; Northern California and Southern California. To make sure all shades of move-up buyers were surveyed, the housing projects ranged in price from about $100,000 to more than $250,000.

Responses were analyzed by region and by the price prospective buyers said they would be willing to spend for a new house. In some cases the results are surprising, in other

Photos: Copyright 1984 Robb Miller

River Run, Walnut Creek, Calif., is featured on page 102.

THE STEP UP

Anticipated Price range	Total Sample
Household income[1]	$54,500
Home value[2]	
Current home	$109,750
Planned purchase[3]	$131,400
Percent increase	20%
Square footage[4]	
Current home	1,856
Planned purchase	2,212
Percent increase	19%
Equity vs. down payment[5]	
Equity	$44,800
Planned down payment	$28,900
Percent equity for down payment	65%

BUTTONS

cases, however, they are not. For example:

- Move-up buyers do want larger houses, typically about 20 percent bigger than the homes they live in.
- Higher prices lead to higher expectations. As buyers go up the price scale, they expect to find more features and high-quality finishes in a new house.
- Energy efficiency does matter. It's one of the key things buyers look for in a new house.
- Buyers want open living-dining rooms and kitchen-family rooms, but not too open. There should be some room separation. (Vaulted ceilings are more popular in the Sunbelt than in the East.)
- Overwhelmingly popular are brick siding, fireplaces, ceramic tile, wood shake roofs, decks, microwaves, double lavs, two-story plans, dead bolt locks and wood flooring.

One of the most important and disconcerting findings is that prospective buyers gave the new houses they'd seen warm, but not hot, ratings. That means a lot of builders aren't pressing enough hot buttons.

That's where the survey can help. It provides hard information about what choosy move-up buyers want. Prospects rated dozens of features and finishes on a scale of one to five, with one being least desirable and five being most desirable. The results, highlighted on the next 10 pages, are organized in tables that show what's hot and what's not in terms of exterior design and products and then in terms of features and products in each room of the house. The information is further organized by price range of housing, and those features with the highest ratings—hot buttons—pop out in boldface type.

Following the survey results are profiles of four move-up projects filled with features that respondents rated high. The success of each of these projects proves that pushing the right hot buttons rings up sales.

LOCAL SPONSORS

Following are the local sponsors who conducted the surveys in each market: Building Industry Association of Northern California, Dublin, Calif.; Builders Association of Metro Tulsa, Tulsa; New Homes Division, Long & Foster Realtors, Fairfax, Va.; Berry-Fulton Research, Ballwin, Mo.; Home and Apartment Builders Association of Metropolitan Dallas, Dallas; Schlott-Fulton Research, Bernardsville, N.J.; Walker & Lee, Inc., Santa Ana, Calif.; Ryland Homes, Vienna, Va.

GET IT ALL

Copies of the complete results of BUILDER's 1985 home buyer survey are available. (Information is organized by the price range of housing that buyers indicated they were seeking.) To order a copy of the survey results, send a check for $25 (payable to BUILDER) to BUILDER, 1985 Home Buyer Survey, 655 15th St., N.W., Suite 475, Washington, D.C. 20005.

Less than $100,000	$100,000 to $125,000	$125,000 to $150,000	$150,000 to $175,000	$175,000 to $200,000	$200,000 to $250,000	More than $250,000
$42,000	$46,300	$54,000	$60,000	$62,700	$69,800	$83,000
$75,150	$84,000	$104,500	$124,000	$136,800	$160,300	$192,200
$89,000	$110,300	$129,400	$146,500	$167,100	$214,400	$256,600
18%	**31%**	**24%**	**18%**	**22%**	**34%**	**34%**
1,556	1,654	1,845	1,871	1,955	2,000	2,400
1,876	1,947	2,005	2,318	2,387	2,463	2,882
21%	**18%**	**9%**	**24%**	**22%**	**23%**	**20%**
$30,100	$32,100	$39,300	$48,400	$60,100	$66,500	$116,700
$16,000	$22,200	$25,800	$31,600	$41,800	$45,900	$69,300
53%	69%	66%	65%	70%	69%	59%

1,2,4,5—median figures

3—The planned purchase price is based on the monthly payment prospects anticipate paying, the maximum interest rate they would accept and the amount of down payment they plan to make.

BUYING POWER

The profile of the move-up buyer that emerged from the survey probably jibes with the image most builders have formed almost intuitively. Most are between 26 and 45 years old with well above average incomes. More than half of them have children (chart below).

Predictably these buyers are looking for more and better space. A house with 2,000 square feet is the minimum for move-up buyers and the size of house sought increases with price range. (The median increase in the size of house buyers want is 356 square feet.) In the lower price ranges—$75,000 to $125,000—buyers seem to want more space than they can afford, so it is important that plans be efficient and feel spacious.

Childless couples comprise a surprisingly important segment of the move-up market, especially in higher price ranges. For example close to half the prospects expecting to buy a house costing more than $250,000 were two-person households. And as house price increases, prospects tend to be older, suggesting significant demand for detached, luxury housing for empty-nesters.

There is an interesting blip in the profile of buyers looking for houses that cost between $150,000 and $175,000. Singles make up a small but significant 14 percent of this market and shouldn't be overlooked.

Move-up buyers seem to have their feet firmly on the ground when it comes to paying for the house of their dreams. And they know they'll have to pay more—and they're prepared to pay more—for a bigger, better new house. In fact they say they're willing to buy a house that costs 30 percent to 50 percent more than their current homes. But based on the highest monthly mortgage payment, interest rate and down payment they will accept or can handle, most are more likely to move up a more prudent 20 percent to 30 percent in price (chart previous page).

In general, prospective buyers who own the least expensive homes (median value $84,000) and the most expensive homes (median value $192,000) are prepared to go up in price the most. As a rule of thumb though, the move-up buyer plans to buy a house costing 20 percent more than the home he currently owns.

While that's not too surprising, more surprising is the percentage of equity in their current homes buyers will use for the down payment on the new home—only 65 percent. That suggests that many of these buyers have extra buying power—buying power that can be activated by builders who push the right hot buttons.

PROFILE OF SURVEY RESPONDENTS

Planned purchase price	Less than $100,000	$100,000 to $125,000	$125,000 to $150,000	$150,000 to $175,000	$175,000 to $200,000	$200,000 to $250,000	More than $250,000
Age							
25 or under	8.7%	7.1%	7.6%	2.0%	5.2%	2.9%	2.9%
26 to 35	40.0	41.6	40.3	36.9	30.9	30.2	26.9
36 to 45	29.0	31.8	31.2	37.6	40.4	41.2	40.4
46 to 55	15.5	13.3	15.4	18.1	17.6	24.3	17.3
56 to 65	4.5	5.7	4.3	4.7	5.2	0.7	10.6
Over 65	2.3	0.5	1.2	0.7	0.7	0.7	1.9
Type of household							
Single male adult	3.0	0.9	3.3	4.0	1.5	1.5	1.9
Single female adult	3.0	2.8	3.3	2.7	4.1	0.7	1.0
Couple without children	34.7	35.8	37.5	34.9	27.5	32.4	41.8
Couple with children	52.9	57.3	50.0	49.0	63.6	62.5	52.4
Single parent with children	3.4	2.3	2.1	4.0	1.1	0.7	1.9
Unrelated individuals	3.0	0.9	3.8	3.4	2.2	2.2	1.0

MOTIVATING FACTORS

Factors	Total	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Larger home	**50.8%**	**41.2%**	**55.5%**	**52.6%**	**53.4%**	**50.0%**
Larger yard	30.4	29.4	32.6	26.0	33.1	**38.6**
Smaller home	5.7	4.2	7.4	3.7	4.7	6.1
Less yard maintenance	20.6	14.8	20.6	21.9	20.3	28.9
New product features	25.1	18.8	23.6	27.5	26.4	**37.7**
New design features	32.6	26.4	32.5	32.5	**40.5**	**39.5**
More energy efficiency	**45.5**	**43.0**	**49.4**	**43.3**	**43.2**	**39.5**
Investment potential	**37.1**	32.7	**38.1**	**38.1**	**36.5**	**39.5**
Tax advantages	**37.4**	31.2	**39.2**	**37.4**	**42.6**	**36.8**
Growing family	18.4	17.0	21.2	18.0	17.6	11.4
Job transfer	14.5	13.3	15.5	14.5	14.9	14.9
Closer to work	17.6	18.2	20.9	16.0	14.2	10.5
Better neighborhood	32.3	29.7	34.5	30.7	**37.2**	31.6
Better schools	19.8	19.1	21.5	20.8	16.9	18.4
Change of scene	15.7	18.2	13.9	17.5	14.9	12.3
Tired of renting	10.3	15.8	12.9	5.6	7.4	1.8

Respondents were allowed to make multiple choices.

River Run, Walnut Creek, Calif. is featured on page 102.

Photos: Copyright 1984 Robb Miller

LOOKING GOOD

Not every home can be a mansion, but houses for move-up buyers must have great curb appeal, even snob appeal. A good-size yard is important, and extra landscaping is a big, big plus. At the low end of the move-up market colonial elevations are the clear favorite, but contemporary is the choice at the top of the market (bottom chart). For all buyers finish materials that seem substantial and upscale are preferred (chart right).

The hottest buttons a builder can use on the exterior are:

- Brick, the overwhelming choice for siding;
- Decorative wood doors, clearly more popular than any other choice;
- Wood windows, top rated by respondents; and
- Wood shake roofs, followed closely by tile roofing.

Not all move-up housing can satisfy these champagne tastes, however. But it may be possible to use one or two of these features to lend a touch of class to more economical materials. A decorative wood door, for example, can be such a strong focus that it carries the rest of the front elevation. Brick, which may be too costly to use everywhere, can be used effectively as an accent wall or on a prominent chimney. In both cases brick can create the solid, expensive image buyers say they prefer.

Buyers also said they prefer two-story designs. Colonial architecture is the first choice of buyers looking for houses selling for less than $200,000 and is most popular in the Southeast. Contemporary design is the first choice in California and number one nationally among those seeking houses that cost more than $200,000.

According to the survey, builders may be underestimating the appeal of exterior features such as decks and patios, upgraded landscaping, fencing and security lighting. Prospective buyers in every price range rated all of them as very desirable.

DESIGN PREFERENCES

Elevations	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Tudor	10.2%	13.0%	16.0%	23.3%	21.6%
Colonial	**36.2**	**38.2**	**33.4**	21.6	16.4
Spanish	5.9	5.5	11.4	8.2	12.6
Contemporary	27.7	25.1	24.0	**34.9**	**28.8**
Victorian	13.6	11.1	9.1	6.5	14.4
Other	6.4	7.1	6.1	5.5	6.2

GAUGING THE RATINGS

1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.
The most popular features appear in boldface type.

CREATING CURB APPEAL

Product features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Siding					
Aluminum	2.34	2.39	2.08	1.65	1.63
Brick	**4.55**	**4.41**	**4.41**	**4.44**	**4.30**
Cement block	1.53	1.51	1.56	1.58	1.45
Hardboard	2.15	2.17	2.17	2.11	1.99
Lumber	2.79	2.86	3.07	3.33	3.13
Plywood	1.47	1.49	1.48	1.57	1.44
Stone	3.76	3.71	3.92	3.99	3.84
Stucco	2.25	2.43	2.92	3.13	3.02
Vinyl	2.32	2.00	1.84	1.57	1.59
Roofing					
Asphalt or fiberglass shingles	3.42	3.16	2.84	2.46	2.43
Roof tile	2.70	3.03	3.33	3.45	3.61
Wood shake	**3.76**	**3.84**	**4.03**	**3.98**	**3.88**
Entry doors					
Decorative steel	3.26	2.98	2.68	2.36	2.40
Plain steel	2.03	2.06	1.85	1.64	1.51
Decorative wood	**4.48**	**4.40**	**4.49**	**4.63**	**4.72**
Plain wood	2.71	2.70	2.75	2.69	2.56
Windows					
Aluminum	3.14	3.19	3.10	3.04	3.07
Vinyl-clad wood	3.52	3.21	3.20	2.86	2.77
Wood	**3.87**	**3.88**	**4.07**	**4.18**	**4.04**
Garage					
Two-car garage	**4.27**	**4.36**	**4.02**	3.60	3.03
Three-car garage	2.83	3.08	3.64	3.97	**4.48**
Automatic garage door	**4.27**	**4.26**	**4.36**	**4.46**	**4.59**
Trim and landscaping					
Awnings	2.45	2.33	2.41	2.59	2.24
Shutters	3.65	3.74	3.63	3.46	3.47
Security lighting	3.78	3.73	3.89	**4.11**	**4.14**
Covered porch	**4.25**	3.98	3.98	3.83	3.61
Patio	**4.23**	**4.13**	**4.17**	**4.40**	**4.14**
Wood deck	**4.39**	**4.27**	**4.22**	**4.29**	3.83
Hot tub or spa	3.16	3.46	3.51	**4.09**	**4.10**
Trellis and plant shelves	3.07	3.16	3.19	3.50	3.42
Lawn sprinkler system	3.15	3.54	3.88	**4.15**	**4.37**
Upgraded landscaping	3.98	**4.08**	**4.08**	**4.38**	**4.48**
Fencing	3.71	3.77	3.80	**4.18**	3.95

See accompanying rating scale

RIGHT RECIPE FOR KITCHENS

A house can rise or fall flat on the merits of its kitchen. So it's especially crucial to know what the hot buttons are in that room.

Evidently, though, not many builders have the right recipe for their kitchens. While survey respondents rated the kitchens they'd seen in new homes as above average, there's room for improvement, especially in the $250,000-and-up range. (The biggest shortcoming is storage space.)

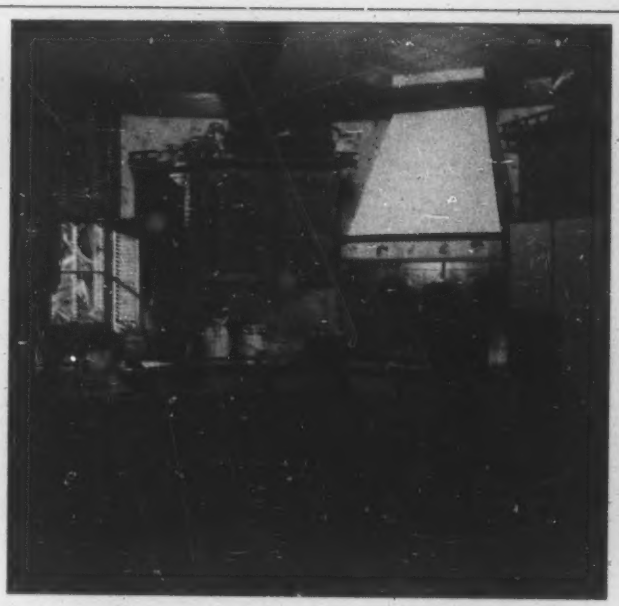
What, then, do buyers want? To begin with, they favor an island kitchen layout. The questionnaire showed three common kitchen layouts—eat-in, u-shape and island—and asked buyers to rate them. In all regions and all price ranges the island plan came in first (bottom chart).

Another universal favorite is a walk-in pantry—an old-fashioned feature whose time has come again. The buyers liked some other tried-and-true features, too. Wood cabinetry, eating areas and double-bowl sinks were the three top-ranked kitchen features in the survey (chart right).

Builders in the Middle Atlantic states might do well to try ceramic tile kitchen counters, long a western favorite. Tile counters received high ratings in New Jersey and the Washington, D.C., suburbs where they are seldom used.

Ceramic tile flooring did well, too, particularly in housing that cost more than $150,000. In the $200,000-and-up ranges, hardwood kitchen floors are a favorite. Buyers in the lowest range want resilient vinyl flooring.

Buyers of the most expensive houses want a separate range and oven, but in the lower price categories they prefer the range and oven in one unit. Sinks break out along the same lines. At the top end, people lean toward porcelain sinks, but below that price they prefer stainless steel. Across the board, however, buyers want a microwave oven.



GAUGING THE RATINGS

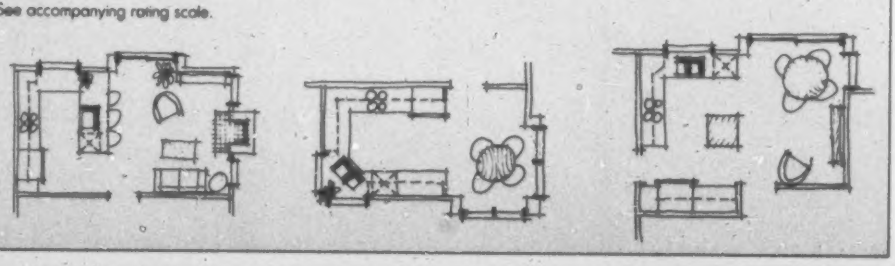
1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.
The most popular features appear in boldface type.

U-SHAPE, EAT-IN, ISLAND

Kitchen layout	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
U-shape kitchen	2.96	3.20	3.11	3.04	2.95
Eat-in kitchen	3.42	3.29	3.39	3.29	3.29
Island kitchen	**3.65**	**3.72**	**3.72**	**3.85**	**3.78**

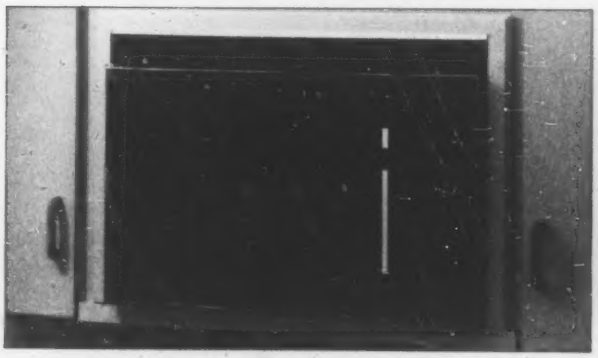
See accompanying rating scale.

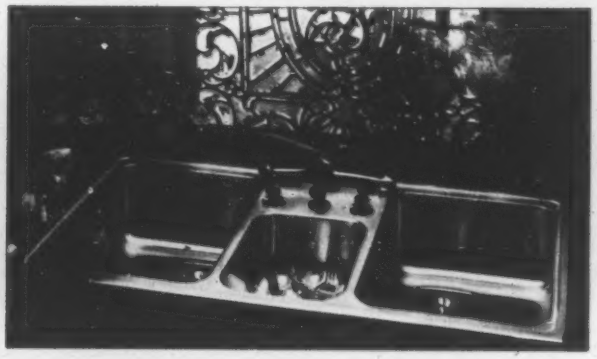


KITCHEN FAVORITES

Kitchen features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
European-style laminate cabinetry	2.91	2.76	2.83	2.71	2.80
Wood finish cabinetry	**4.60**	**4.58**	**4.56**	**4.62**	**4.59**
Barbecue cook top	2.93	3.09	3.21	3.61	3.58
Ceramic tile counter tops	3.66	3.67	**4.00**	**4.23**	**4.22**
Laminate counter tops	3.73	3.54	3.20	2.80	2.79
Eating area	**4.51**	**4.47**	**4.54**	**4.50**	**4.49**
Ceramic tile flooring	3.46	3.55	3.90	3.93	3.98
Resilient vinyl flooring	**4.05**	3.87	3.58	3.12	3.15
Wood flooring	3.44	3.50	3.55	3.79	3.84
Built-in food processor	2.48	2.55	2.71	2.93	3.21
Greenhouse window	3.71	3.58	3.77	**4.03**	3.73
Intercom	2.70	2.87	2.93	2.96	3.32
Island work area	**4.01**	3.95	3.99	3.98	**4.11**
Microwave oven	**4.13**	**4.15**	**4.24**	**4.40**	**4.47**
Double oven	3.56	3.85	**4.06**	**4.31**	**4.37**
Single oven	3.24	2.93	2.69	2.45	2.25
Range and oven separate	3.14	3.29	3.51	3.52	3.84
Range and oven together	3.92	3.83	3.51	3.54	3.23
Double-bowl sink	**4.61**	**4.46**	**4.44**	**4.50**	**4.59**
Single-bowl sink	2.00	2.18	2.20	1.90	1.89
Porcelain sink	3.25	3.18	3.39	3.58	3.70
Stainless steel sink	3.93	3.84	3.70	3.36	3.20
Snack bar	3.36	3.34	3.34	3.42	3.31
Trash compactor	2.82	2.89	3.10	3.54	3.80
Walk-in pantry	**4.30**	**4.16**	**4.22**	**4.10**	**4.30**

See accompanying rating scale.





MASTERLY SUITES

The master suite is a perfect place for hot buttons. Most existing homes have humdrum bedrooms and baths, so a new home with high-appeal features and appointments in the master suite really will seem like a big step up.

Most appealing are features that make life easier for two-income households. For example, buyers like a dressing area with a walk-in closet. Separate shower and tub in the master bath scored high as well. And two sinks in the bathroom were seen as very desirable by the respondents (top chart).

Buyers in the higher price ranges expect more expensive finishes and more luxury appointments in the master suite. When a house costs more than $200,000, buyers want a private patio and balcony off the master bedroom. Ceramic tile floors and walls, upgraded fittings and whirlpool tubs also grow in appeal as price increases.

Storage space in the master suite is a very hot button. Buyers gave consistently high marks to linen closets and vanity storage in the master bath and walk-in closets in the bedroom. Built-in shelving systems have an especially enthusiastic following in the Southwest.

A fireplace in the master bedroom (bottom chart) warms buyers in California more than buyers in other markets, where it was seen as moderately desirable. The same is true of bay windows in the master suite. Buyers in the East gave this feature a somewhat cool reception, but its appeal grew as the markets headed west. And a sitting area in the master bedroom generated moderately enthusiastic interest, suggesting it's a nice but not necessary feature in most markets.

GAUGING THE RATINGS

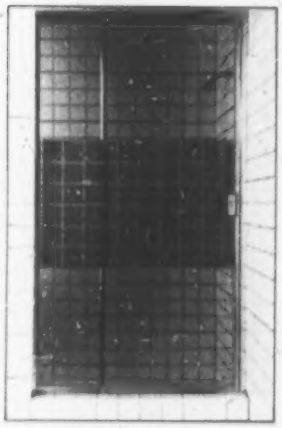
1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.
The most popular features appear in boldface type.

SPLASHY BATHS

Features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Bay window	2.83	2.66	2.92	3.31	3.30
Upgraded fittings	3.93	3.92	**4.06**	**4.17**	**4.27**
Colored fixtures	3.67	3.33	3.40	3.49	3.55
Ceramic tile flooring	3.96	**4.01**	**4.16**	3.99	3.94
Linen closet	**4.12**	**4.11**	**4.10**	**4.08**	**4.31**
Mirrors	3.84	3.88	**4.10**	**4.25**	**4.34**
Separate shower enclosure	**4.41**	**4.26**	**4.38**	**4.51**	**4.54**
Two sinks (instead of one)	**4.10**	**4.26**	**4.37**	**4.50**	**4.47**
Vanity storage	**4.09**	3.99	**4.02**	**4.11**	**4.21**
Ceramic tile walls	**4.32**	**4.36**	**4.47**	**4.43**	**4.42**
Whirlpool tub	3.57	3.53	3.53	3.94	**4.01**

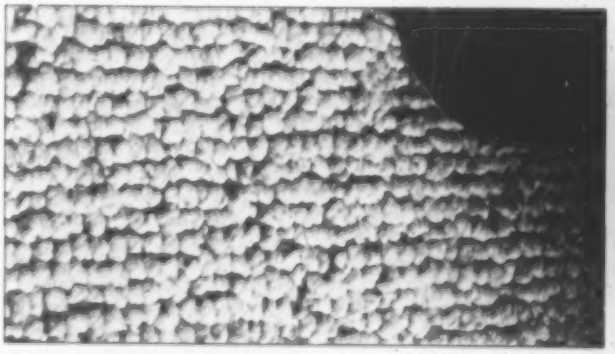
See accompanying rating scale



NOTHING SLEEPY

Features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Bay window	3.55	3.30	3.34	3.57	3.44
Balcony or patio	3.75	3.72	3.86	**4.17**	**4.23**
Dressing area with walk-in closet	**4.52**	**4.53**	**4.51**	**4.72**	**4.67**
Fireplace	3.52	3.41	3.57	3.80	3.99
Built-in shelving system	3.84	3.71	3.63	3.67	3.74
Sitting area	3.61	3.62	3.76	3.92	3.79
Walk-in closet	**4.59**	**4.60**	**4.61**	**4.66**	**4.49**

See accompanying rating scale



TAKING AN INSIDE LOOK

A two-story house still tops the list for most move-up buyers. Half the respondents rated it their number one choice (chart below). Nowhere is the preference stronger than in the East, where more than two-thirds of those surveyed gave two-story plans the top rating.

Dallas, in fact, was the only market surveyed to favor another plan, with buyers there favoring one-story plans by three to one. Split levels ranked a distant third in most markets, except in California, where they were ranked second.

No matter how many levels a house has, its floor plan should be relatively open, but with room definition. Only about 10 percent of the national market is ready for completely open plans and a fourth remains loyal to a plan with distinct room divisions.

Of the two-thirds who want a two-story plan, more than 60 percent want the master bedroom upstairs. The rest want it on the first floor. Although in Dallas, Oklahoma and St. Louis and in houses costing less than $100,000, first-floor master suites have an edge.

Predictably, buyers prepared to spend more for a home expect the size to increase with price. Those prepared to pay less than $100,000 for a new home expect 1,869 square feet, while those willing to pay more than $250,000 want 2,882 square feet.

The price per square foot a buyer is willing to pay also rises with house price. Thus, those in the lowest price range are willing to pay about $50 a square foot while those in the highest range will double that and more. This, in part, reflects the quality of materials and quantity of amenities buyers expect to find in their new homes.

While those expectations vary with price range and from region to region, the survey showed there are some interior features no move-up house should be without (chart right). They are: upgraded carpeting, dead bolt locks, a fireplace and hardwood flooring.

GAUGING THE RATINGS

1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.

The most popular features appear in boldface type.

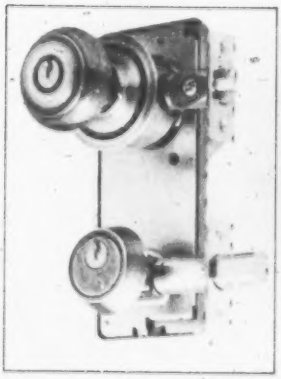
PLAN PREFERENCES

Plan type	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Single-story	36.1%	26.3%	19.0%	17.5%	23.2%
Two-story	**48.4**	**54.2**	**57.3**	**59.6**	**57.0**
Split-level	14.2	18.5	21.8	22.2	18.5
Other	1.3	1.0	1.9	0.7	1.3
Median expected square footage	1,869	1,980	2,364	2,463	2,882

THE INSIDE TRACK

Interior features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000	Favorite room for this feature
Upgraded carpeting	**4.50**	**4.47**	**4.48**	**4.62**	**4.52**	Master bedroom, living room, family room
Ceiling fan	**4.07**	3.80	3.72	3.82	3.67	Family room, master bedroom
Dead bolt locks	**4.55**	**4.49**	**4.45**	**4.53**	**4.48**	
Fireplace	**4.42**	**4.60**	**4.62**	**4.63**	**4.59**	Family room, living room
French doors	**4.05**	3.91	**4.00**	**4.07**	**4.27**	Family room, dining room
Sliding doors	3.07	3.17	3.30	3.46	3.40	Family room, dining room
Hardwood flooring	**4.01**	**4.01**	**4.07**	**4.29**	**4.26**	Dining room, family room, living room
Tile flooring	3.31	3.34	3.75	3.72	3.87	Foyer, master bath, kitchen
Greenhouse section (sunroom)	3.47	3.48	3.64	3.88	3.79	Family room
Greenhouse window	3.64	3.58	3.72	**4.08**	3.87	Kitchen
Recessed or track lighting	3.33	3.42	3.49	3.84	3.87	Family room
Decorative moldings	3.98	3.96	**4.02**	**4.13**	**4.19**	Dining room, living room, family room
Wood paneling	3.56	3.50	3.48	3.63	3.51	Family room
Security system	3.77	3.77	3.97	**4.14**	**4.24**	
Built-in shelving	3.90	3.89	3.97	**4.08**	**4.16**	Family room
Skylight	3.96	3.98	**4.08**	**4.39**	**4.28**	Master bath, kitchen
Step-up or step-down rooms	3.09	3.10	3.52	3.66	3.52	Living room
Central vacuum	3.23	3.15	3.24	3.40	3.57	
Vaulted ceilings	3.54	3.71	3.76	**4.11**	**4.07**	Living room, family room
Mirrored walls	2.76	2.72	2.91	3.33	3.20	Master bedroom
Wet bar	2.98	3.08	3.36	3.59	3.69	Family room
Window seat	3.58	3.44	3.55	3.78	3.57	Master bedroom

See accompanying rating scale.



PLEASANT SURPRISES

Fireplaces, two-car garages and basements are bread and butter features in Denver, according to David Laffoon, marketing director of the Denver-based Writer Corp. So Writer's Country Meadows, which incorporates these and other features that many builders were offering only as options, must be considered a steak and potatoes project.

"Buyers in the $100,000 price range don't think they can afford a lot," said Laffoon. "They come in expecting to see the same old floor plans, the same elevations. Instead they're very surprised to find a private master bath or a loft" in the units at Country Meadows. Designed by Berkus Group Architects in Santa Barbara, the two and three-bedroom plans have from 1,200 to 1,800 square feet, excluding unfinished basement. Other builders may provide more square footage, Laffoon noted, but "buyers have seemed willing to give that up to get our extra features."

In addition to the fireplace, two-car garage and basement, the one and two-story and split-level houses also have dishwashers, skylights, upgrade carpeting and brick siding, all features that buyers want but don't often get in this price range. Wood is another material buyers associate with quality, said Laffoon. So Writer detailed the houses with wood windows and doors, stained wood railings and trim, and even cedar on closet floors.

Country Meadows buyers, couples in their thirties, also voiced concern about energy efficiency, Laffoon said. So, in addition to beefed-up insulation, Writer installed air infiltration barriers, a relatively inexpensive addition.

"We didn't include the features just because we saw a niche that could be filled," Laffoon explained. Before Country Meadows, the company's least expensive homes sold for around $150,000. "Despite the lower prices, we wanted to provide the same kind of quality in these homes."

Two-income households account for about 80 percent of the buyers at Country Meadows. Because of economical price tags, sales at the project have been split evenly between move-up and first-time buyers.

Country Meadows is located in the planned community of Green Valley Ranch, about 20 minutes from downtown Denver. Thirty of the first phase of 146 homes have sold for $92,500 to $105,000 since the project opened last May. A second phase of 133 homes also is planned.

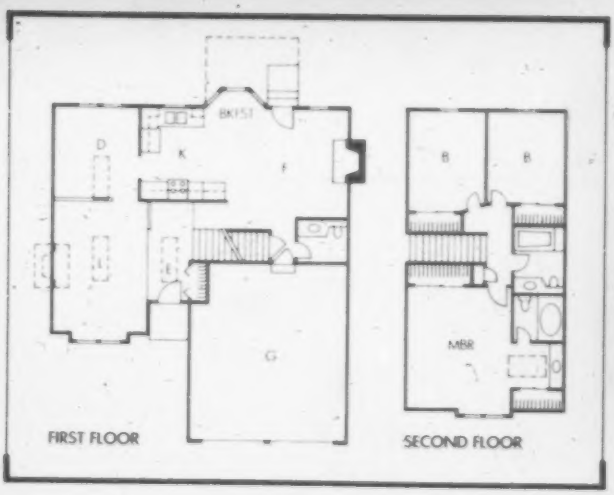
Photo: Randy Troute/Wm. Swartz Photography

Photos: Copyright Gifford Ewing

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced less than $150,000 are offered either as standards or options at Country Meadows.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Two-car garage	☒	☐
Covered porch	☒	☐
Patio	☒	☐
Wood deck	☐	☒
Kitchen		
Wood-finish cabinets	☒	☐
Eating area	☒	☐
Island work area	☐	☐
Microwave oven	☐	☒
Double-bowl sink	☒	☐
Walk-in pantry	☐	☐
Master suite		
Separate shower stall	☐	☐
Two sinks	☐	☒
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐
French doors	☒	☐



Fireplaces, two-car garages, wood windows and trim and eating areas are standard at Country Meadows, where homes start at $92,500.

SOMETHING SPECIAL

Move-up buyers in the $150,000 to $200,000 range have had their fill of pork and beans housing. They're hungry for gourmet touches. River Run at Snow Creek provides them. "We have a lot of competition, so we pack our houses with features," says marketing manager Chuck Lockhart. "In the end, it's not any one thing but the entire package that sells a house."

Targeted toward families with an income of $50,000 or more, River Run is in a fast-growing area about 10 miles east of downtown Los Angeles. The builder, Shea Homes, put a greenbelt around the development and spent $1 million upgrading a 10-acre park with bike, horse and jogging trails, picnic areas and playing fields. Individual lots are large for California—each is about 10,000 square feet—and every house is on a cul-de-sac.

Contemporary designs by Berkus Group Architects at Newport Beach, Calif., have "more complicated contours and more architectural interest than most other homes in the price range," says Lockhart. There are four models, each with three elevations and three-car garages. Exteriors are stucco, with wood trim and concrete tile roofs.

Inside, the 1,800 to 2,400-square-foot floor plans combine the openness of vaulted ceilings and high-set angled or Palladian windows with well-defined living areas such as a formal dining room, breakfast nook and family room.

Adults and children have their own distinct spaces. "Kids can use their own bath without walking through common areas," says Lockhart. "They also have their own areas for studying, playing and entertaining." The two-story homes range from three bedrooms and two baths to four bedrooms and three baths. Each unit has between 120 and 210 square feet of raised hobby area off the three-car garage that can be converted into a workroom, home gym or storage space. "The house appeals to kids, and they help sell their parents," says Lockhart.

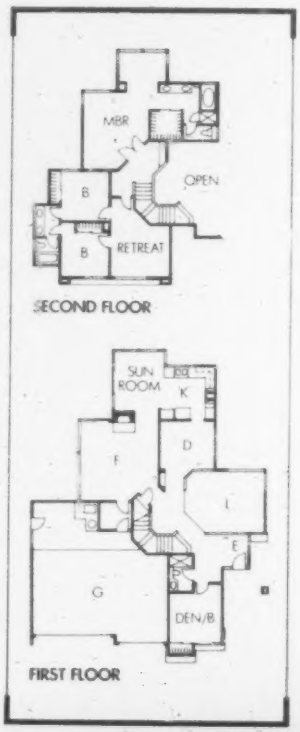
There are extras for parents, too. Standard are ceramic counter tops and ash cabinetry in the kitchen, and brass fixtures, oval tubs, and water-saving toilets and showers in the bath. Popular options are mirrored wardrobe doors and an intercom-music system.

River Run opened last June. Out of 49 homes in the first two phases, 42 have been sold. About 200 homes eventually will be built. Prices range from $163,000 to $214,000.

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced from $150,000 to $200,000 are offered as either standards or options at River Run.)

	Standard	Optional
Exteriors		
Brick siding	☐	☐
Decorative wood doors	☒	☐
Three-car garage	☒	☐
Automatic garage door opener	☒	☐
Patio	☒	☐
Wood deck	☐	☐
Kitchen		
Wood-finish cabinetry	☒	☐
Eating area	☒	☐
Microwave oven	☒	☐
Double-bowl sink	☒	☐
Walk-in pantry	☒	☐
Master suite		
Ceramic tile flooring	☐	☐
Separate shower enclosure	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☒	☐
Dead bolt locks	☒	☐
Fireplace	☒	☐



A dramatic angled staircase punctuates the living room's soaring space (below). Parquet floors and a fireplace are extra attractions.

Photos: Copyright 1984 Robb Miller

Gables and half-Palladian windows give River Run homes added curb appeal (left). Hot features in this kitchen-breakfast nook (above) are a greenhouse window, wood cabinets, hardwood floors, double doors and a work island with built-in grill and cook top.

EVERYTHING INCLUDED

Buyers moving up to Stoneybrook in the planned community of Mission Viejo in Southern California don't just want a house. They're looking for space, architectural excitement and amenities.

Stoneybrook's five models are large—from 2,200 to 3,100 square feet—and are all two-story. Floor plans are flexible. A variety of den, loft and bonus-room arrangements have been mixed with three and four bedrooms, three baths and separate living, family and dining areas.

Almost every feature a move-up buyer might want is standard. "We're in a highly competitive marketplace, and all of the features are necessary," says marketing manager Kathi Pepka. Designs by Berkus Group Architects at Newport Beach, Calif., are classic California, with ceramic tile or wood entries, solid oak cabinetry, brass fixtures and greenhouse and half-Palladian windows. Fireplaces are finished with oak, marble, river rock or stone. Double or triple garages are standard. Optional appointments include second fireplaces, built-in wet bars and whirlpool tubs in the master bath.

Stoneybrook is in Canyon Crest, a controlled-access community scheduled to grow to 1,000 homes over the next 10 years. The builder, Mission Viejo Company, has wired each house in Stoneybrook to a central security system located at the gatehouse. "That has proved to be our number one attraction for buyers," says Pepka.

Plentiful recreational facilities also are a big draw. There's a $2 million recreation center with a meeting or party room, TV and game room, exercise studio, pool, spa and four tennis courts.

The first phase of Stoneybrook opened last September. Of the 189 units planned, 67 have been offered for sale and 46 have been sold. Prices range from $215,000 to $260,000. Most buyers have been married couples with a combined family income of over $70,000.

Stoneybrook buyers automatically become members of the Mission Viejo Lake Association, allowing them to swim, fish or sail in the 124-acre lake, or sun at the private Playa del Norte beach. There are also public and private golf courses nearby.

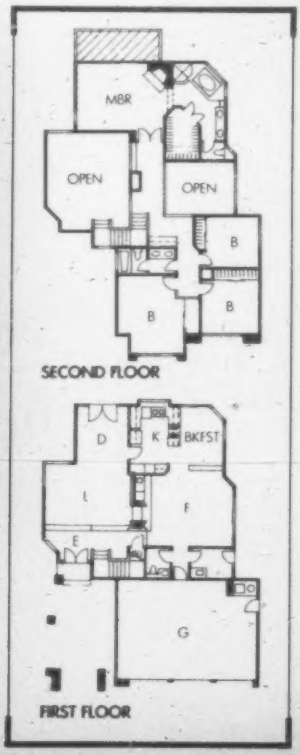
Form (a curved, sculptural staircase) and function (low-maintenance ceramic tile and wall-to-wall carpeting) are the living room's hot buttons (left). A separate shower stall, oval tub and double sinks are standouts in this black-tiled bathroom (above right). The Silverwood model has a three-car garage and dramatic entrance and roof line (right).

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced from $200,000 to $250,000 are offered either as standards or options at Stoneybrook.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Wood windows	☐	☐
Automatic garage door opener	☒	☐
Patio	☐	☒
Wood deck	☒	☐
Upgraded landscaping	☐	☐
Kitchen		
Wood-finish cabinetry	☒	☐
Eating area	☒	☐
Microwave oven	☒	☐
Double oven	☒	☐
Double-bowl sink	☒	☐
Master suite		
Separate shower stall	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐

Photos: Copyright 1984 Robb Miller

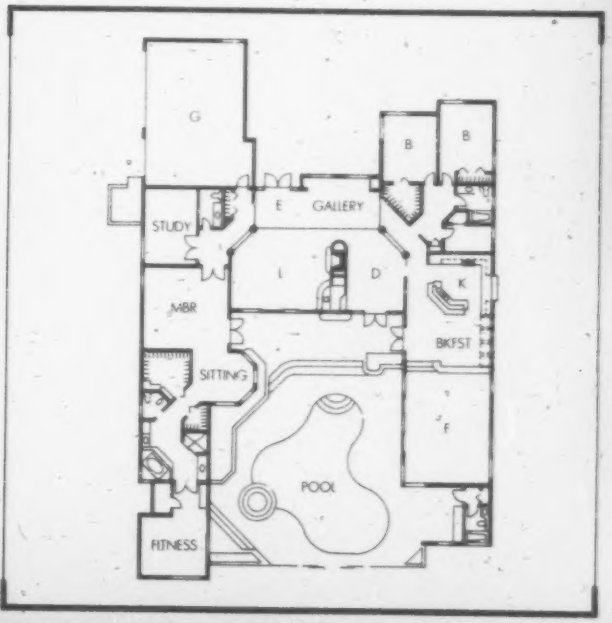


A stone fireplace with built-in wood bin is the focal point of the family room (above). An unusual ceiling treatment adds interest.

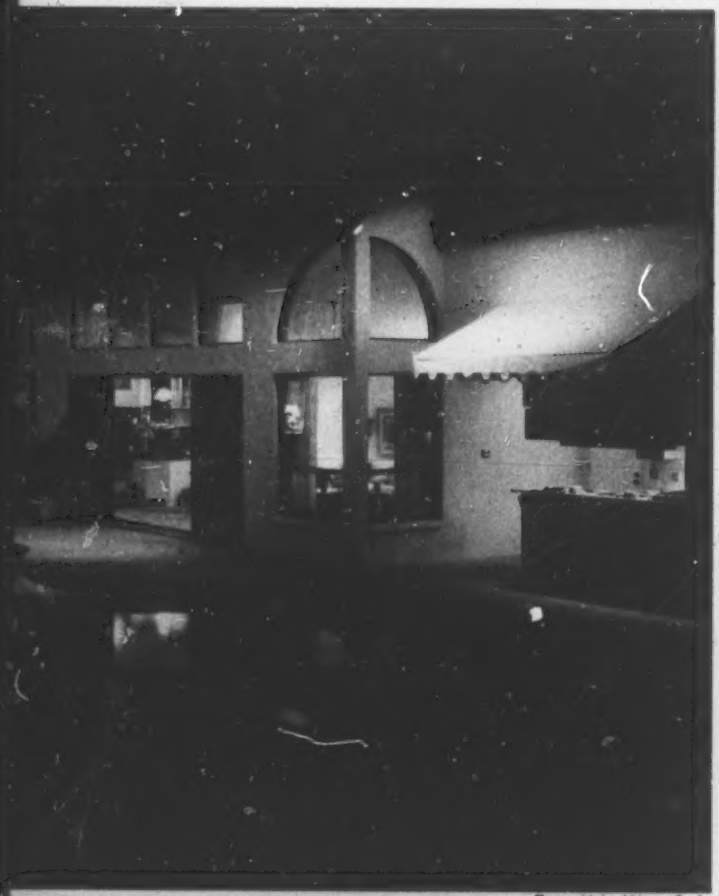
ON THE BUTTON

(Checklist shows which "hot button" features for housing priced more than $250,000 are offered either as standards or options at Huntington.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Three-car garage	☒	☐
Automatic garage door opener	☒	☐
Lawn sprinkler system	☒	☐
Upgraded landscaping	☒	☐
Kitchen		
Wood-finish cabinetry	☐	☒
Eating area	☒	☐
Microwave oven	☒	☐
Double oven	☒	☐
Double-bowl sink	☒	☐
Walk-in pantry	☒	☐
Master suite		
Ceramic tile flooring	☐	☒
Separate shower stall	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐



Ceramic tile, upgraded landscaping, pool and wet bar are only part of the package at Huntington, where buyers customize their homes to match their hobbies.



Photos: Michael Norton Studio

SATISFACTION GUARANTEED

The sky's not always the limit, even in the rarefied atmosphere of half-million-dollar homes. "Believe it or not, buyers in this price range have budgets," said Raja Jaghab, managing partner with Rutenberg-Jaghab, Ltd., the builder of Huntington, in Safety Harbor, Fla. "There's a limit to what they perceive as valuable." To play on those perceptions, the Clearwater, Fla., company (a franchise of Arthur Rutenberg Corp.) built in big-ticket features that couldn't fail to impress—like wet bars and pools with decks—and then let buyers customize to their heart's content.

The project's identity was built on brick. "It's a little different from what we usually do, and it's definitely seen as a quality product," said Jaghab. Used on exteriors and in the entry gatehouse and security wall that rings the 40-acre project, the brick also sets a traditional architectural theme.

The three and four-bedroom, three-and-a-half-bath models designed by Rutenberg architect Thomas M. Kruempelstaedter start at $400,000. Each includes 3,000 to 4,600 square feet of floor space and another 1,000 square feet of decks and porches.

Every house has $30,000 in standard features, including a landscaping package, decorative driveway treatment, security system and concrete roof tile. The buyers—married professionals and business owners with school-age children—take it from there.

"What people choose to do depends a lot on their hobbies," noted Jaghab. "They spend money on their special interests. One husband was into cooking. So we outfitted the kitchen with commercial-grade equipment."

Much more common, admits Jaghab, is a request for a whirlpool tub in the master bath. Buyers also have upgraded formal areas with marble tile and family areas and bedrooms with ceramic tile. Some have added intercoms or central vacuum systems. And there have been requests for custom lighting, built-in shelves and desks, stained glass in entries and baths, and mirrored wall treatments in living and dining rooms. In addition to these options, an outdoor barbecue center and a fitness center with sauna can be added.

Since sales began last October, seven of Huntington's 50 houses have sold for an average price of $450,000.

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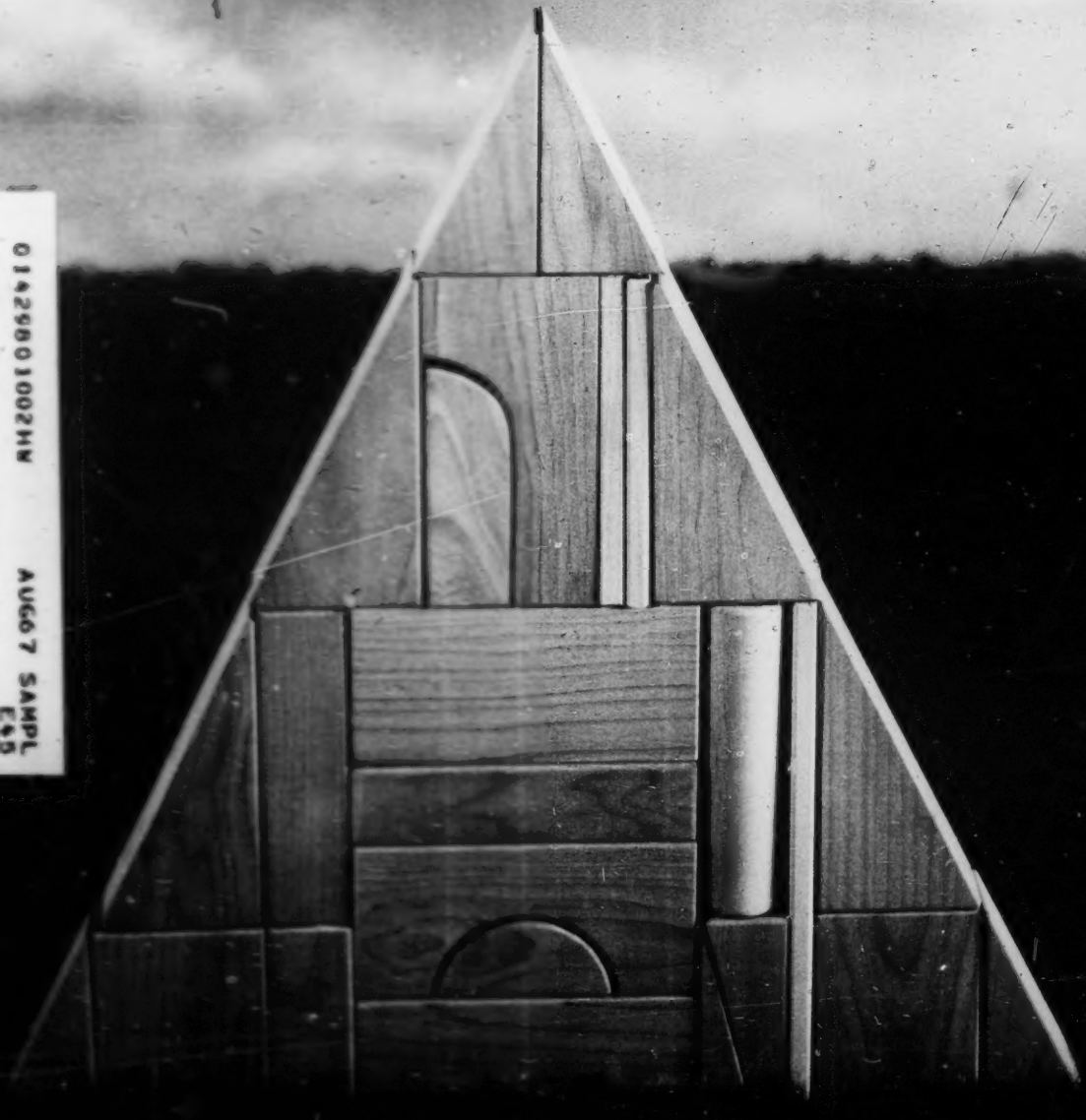
BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

MAY 1985

BUILDER 100



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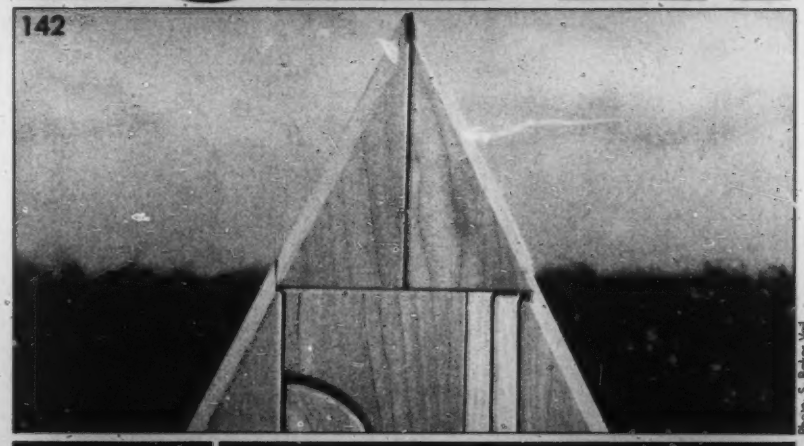


Photo: S. Baker Vail

Photo: Rick Alexander

Photo: Copyright 1985 Cymie Payne

142—BUILDER 100

They're the biggest of the big builders: The 100 home building firms that started the most new houses last year. All told they accounted for 16 percent of total 1984 housing starts. And from all accounts, it looks like the big will get even bigger this year.

(Cover design: Steve Phillips Design Inc. Photo: S. Baker Vail)

168—PLAY HOUSES

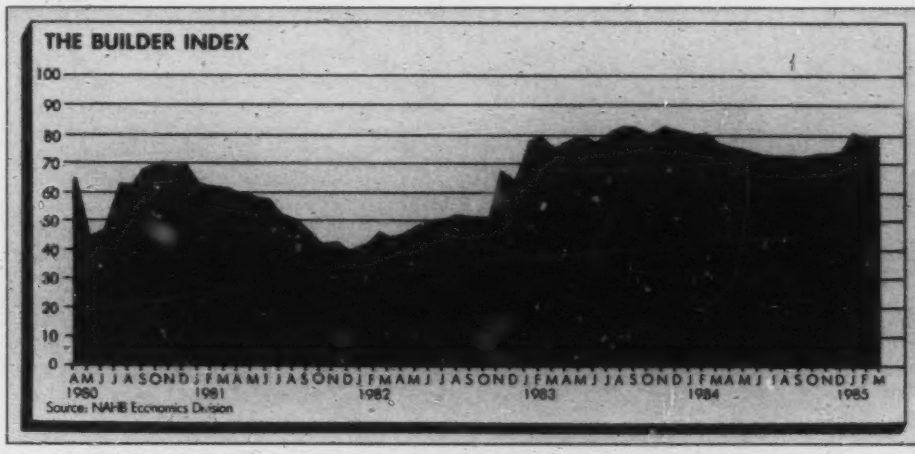
Proposed tax reforms would take some of the fun out of resort housing. But for now the market is strong, and the best-selling projects have an appropriately playful feeling about them.

180—PROJECT OF THE MONTH

Can a lake surrounded by crackerbox cottages be the right spot for $200,000 condos? Massachusetts builder Robert Cole thought so, and his Eastern Point project near Worcester is proving him right.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION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1980
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Source: NAHB Economics Division

The BUILDER index declined very slightly in March to 80.00, reflecting slightly lower expectations by builders.

The BUILDER index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER index is updated monthly.

Rental Dilemma

Michael Sumichrast
NAHB chief economist, Washington, D.C.

The outlook for multifamily housing clearly depends on what happens to the tax simplification proposal. If it is accepted in the form the Treasury proposed, multifamily starts will suffer their sharpest postwar decline. If the proposal is rejected or modified a great deal, then there's a good chance multifamily will have a relatively good year. (A good year would mean about 600,000 starts, compared to the 665,400 new units started last year. It also would be better than average annual multifamily starts between 1974 and 1982.)

But, for clarification, let's define what is meant by multifamily sector.

Most people have a misconception: Namely, that the multifamily market includes only rental units. That's not true.

Look at the table that accompanies this column. It shows that rentals generally account for only about 60 percent of total multifamily starts. (As for total multifamily starts, they have represented anywhere from 23 to 38 percent of total housing starts.)

The share of multifamily starts that rental units accounted for was at its peak from 1975 through 1978, declined sharply from 1979 through 1981 then rose again to close to peak levels of the late 1970s.

Why the rebound in rentals? There's no easy explanation. Many factors have been at play including:

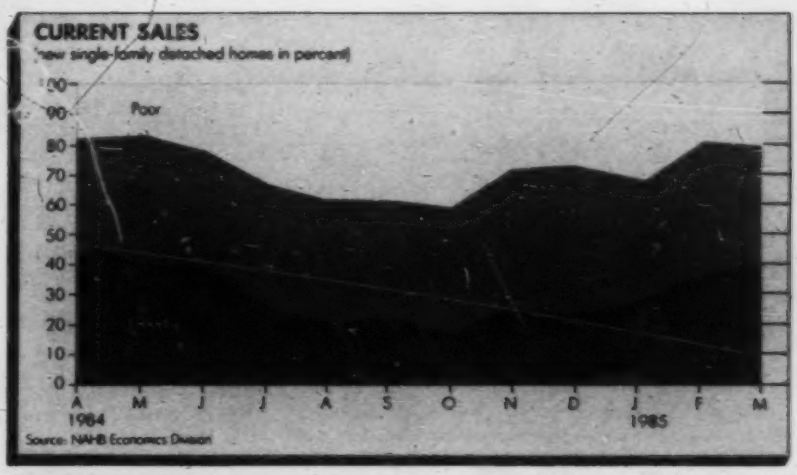
- The 1981 tax change;
- The fact that rent increases after trailing inflation through the 1970s took a big jump in 1980. Increases, in fact, were at double digit rates between 1980-82;
- A shortage of rentals due to little new construction and the conversion of rental units to condominiums;
- The affordability crisis, which pushed a lot of young people into rentals;
- Slower price appreciation of homes; and

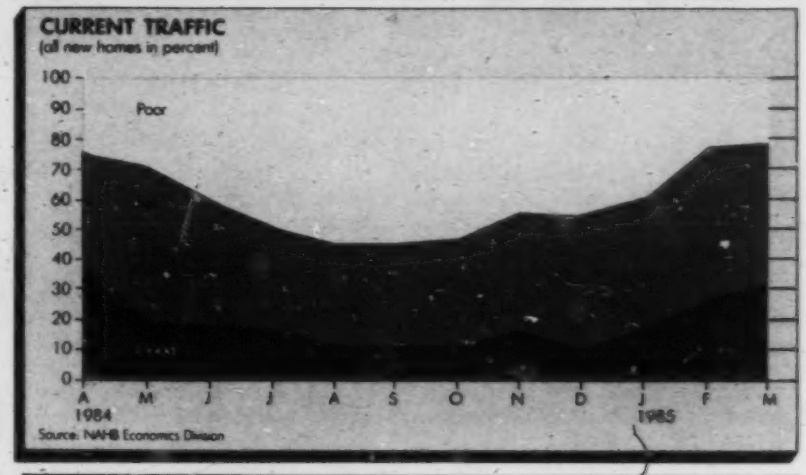
CONTINUED ON PAGE 13

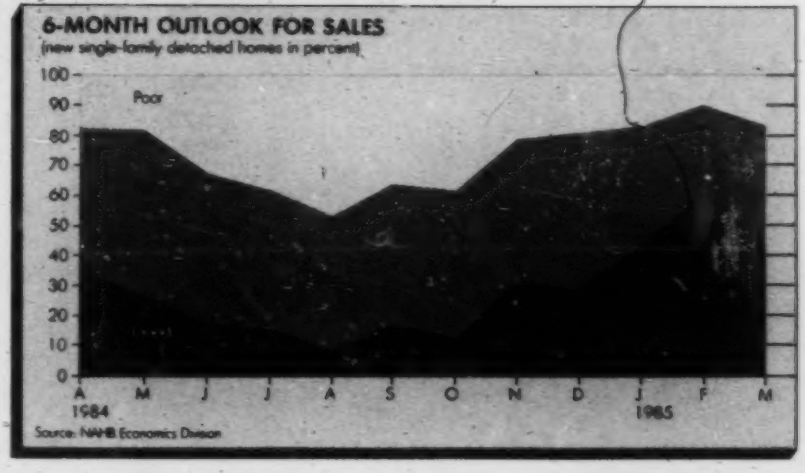
THE COMPOSITION OF MULTIFAMILY STARTS, 1975-1986
(in thousands of units)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total private starts	**1,160.5**	**1,537.5**	**1,987.0**	**2,020.3**	**1,745.1**	**1,292.2**	**1,084.2**	**1,062.2**	**1,703.1**	**1,747.2**	**1,645.7**	**1,563.7**
Single-family	892.2	1,162.4	1,450.9	1,433.3	1,194.1	852.2	705.4	662.6	1,067.6	1,082.5	1,044.8	1,019.0
Multifamily	268.3	375.1	536.1	587.0	551.0	440.0	378.8	399.6	635.5	664.7	600.9	544.7
5+ Rentals	178.3	251.2	357.4	373.0	303.0	212.2	166.7	205.6	350.0	377.5	378.4	341.5
Rentals as percent of total multifamily	66%	67%	66%	64%	55%	48%	44%	51%	55%	57%	63%	63%

Source: Census Bureau, U.S. Department of HUD; NAHB Forecasting Service; compilation by NAHB Economics Division.







MIXED MESSAGES

The March BUILDER Poll shows significant improvement in both current single-family home sales (top chart) and traffic of prospective buyers (middle chart), but a decided drop in builders' six-month expectations for home sales (bottom chart).

There are two possible explanations for the dramatic drop. One would be to argue that the gaudy February poll results were more or less a fluke.

In February some two-thirds of the builders polled said they expected the market to be good for at least six more months. A month later the percentage dropped to 44 percent—or to almost exactly what it had been in January. So the March and January figures may reflect the industry's mood more accurately.

The second explanation for the drop in expectations centers on fear of interest rate increases. And that fear not only explains the decline but also the surge in present sales activity. (Concerned about rates rising, buyers may be "buying now.")

An Oregon builder summed up the second explanation like this: "The market is hot; qualified buyers are out looking. They're afraid if they don't buy soon, interest rates will go up and lock them out for another two or three years.

"Most can't understand why rates won't stay down or drop even more, and they're concerned about ever being able to buy."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

EXISTING HOME SALES DECLINE ... Existing single-family home sales declined 2.7% in February to an annual rate of 2.92 million units, the National Association of Realtors reported. However, February's resale pace was slightly better than a year earlier.

FORMER HUD SECRETARY DIES Patricia Roberts Harris, secretary of the Department of Housing and Urban Development during the Carter administration, died of cancer on March 23 in Washington, D.C. She was 60. The daughter of a Pullman car waiter, Harris was the first black woman to serve in a cabinet post.

VA CEILING UP TO 13% The ceiling interest rate for VA mortgages was increased to 13% from 12.5% on March 25 following the upturn in conventional rates beginning in mid-February. The VA rate had been at 12.5% since late November when it was cut from 13%. The latest increase at least reduced the number of discount points that had risen to as high as seven.

S&Ls PAY MORE FOR MONEY S&Ls paid slightly more for money in the fourth quarter of last year than in the previous quarter, but the increase was more than offset by a rise in S&Ls' return on mortgages. According to statistics announced recently by the Federal Home Loan Bank Board, the cost of funds to FSLIC-insured institutions rose four basis points to 10.31% in the fourth quarter. At the same time, the return on mortgages increased seven basis points to 11.83%. That slightly widened the spread to 1.52%.

GM ENTERS MORTGAGE FIELD General Motors Corporation could become the nation's second largest mortgage banker as a result of recent agreements with two mortgage banking companies. As part of the giant car company's diversification effort, G.M.'s auto financing arm, General Motors Acceptance Corp. (GMAC) is buying Philadelphia-based Colonial Mortgage Service Company, the seventh largest mortgage banking firm in the country, as well as the servicing rights to about $11 billion in mortgages from Norwest Mortgage Inc.

DELINQUENCY RATE DECLINES The home mortgage delinquency rate, which hit a record high in the third quarter of 1984, declined slightly in the fourth quarter, the Mortgage Bankers Association reports. The rate dipped three basis points to 5.83%. The delinquency rate for FHA-insured loans fell the most—16 basis points to 7.41%. The delinquency rate on VA loans edged up one basis point to 6.62%, and the rate on conventional loans rose nine basis points to 4.11%.

DETACHED HOUSES BIGGER IN 1984 The median size of new single-family houses completed last year climbed to a record high as the move-up market strengthened. The median size of the 1.02 million houses completed increased by 40 square feet, or 3%, to 1,605 square feet, according to figures released recently by the Census Bureau. Unlike single-family houses, multifamily units completed last year were smaller than those completed in 1983. Median size declined by 23 square feet, or 2.6%, to 870 square feet.

BUYERS MORE DECISIVE Home buyers spent less time shopping for a home in 1984 than the year before, according to a recent survey by Chicago Title Insurance Company. The typical buyer took 3.8 months to find a home last year versus 4.4 months in 1983. First-time buyers were much more decisive than a year earlier: average shopping time was 4.2 months, down from 5.7 months. Repeat buyers took about the same length of time—3.6 months.

CONTINUED FROM PAGE 1.1

■ Tax-exempt revenue bonds, which last year supported construction of about 120,000 new rentals.

But while the rental market has shown new strength, it still is plagued by many problems. Interest rates, for example, are so high it's almost impossible to make a project for low and moderate-income residents pencil out. And even if builders can deal with the rates, finding a source for financing is difficult.

Building new units for middle-income wage earners requires substantial amounts of equity financing, which poses another problem. Joint ventures are one solution, but the capital from joint ventures usually carries market rate financing. And that makes it difficult to keep rents in the affordable range.

The proliferation of up-front fees is another problem. They've become widespread and make it even harder to pencil out new projects. Private placement syndications can reduce costs by providing up to 100 percent equity financing. But this has its drawbacks. In such deals investors cannot deduct mortgage interest.

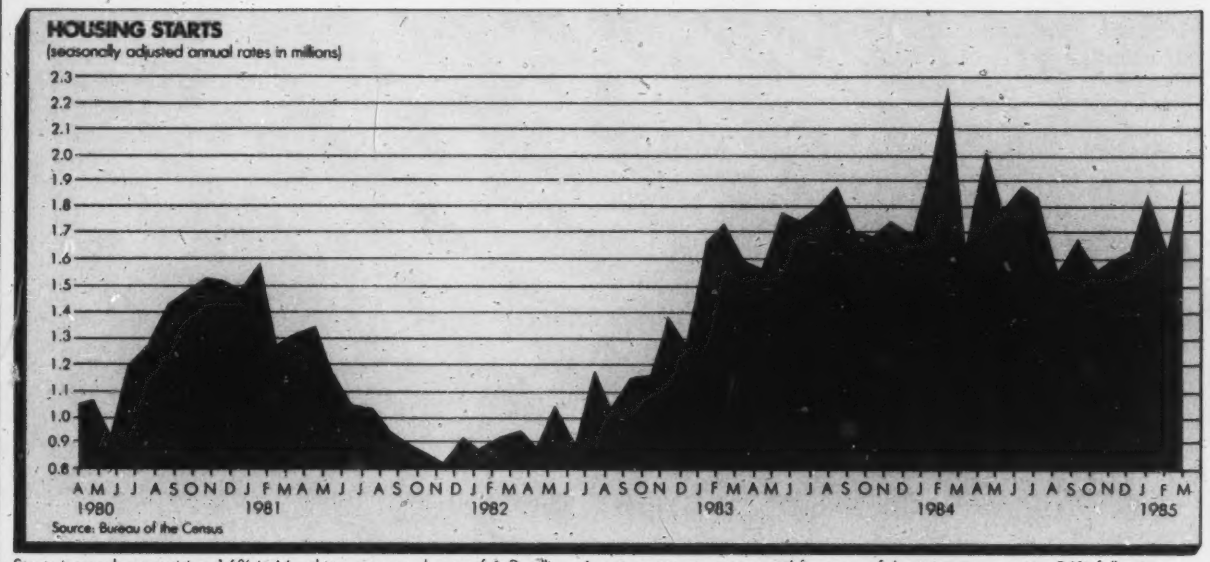
In spite of these constraints the luxury rental market is very active. This market almost always has been solid, but in numbers it really doesn't amount to much.

The bulk of the rental units must be built for medium-income households. And it's in this market that the affordability problem is most severe. Homeowners always have been more affluent than renters, but the gap is widening. In 1970, the typical renter earned 65 percent as much as the typical homeowner. By 1981 that percentage had declined to 52 percent and by 1983 to 51 percent.

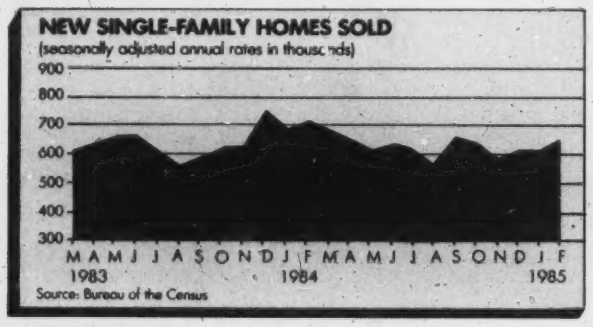
What this means is that in relation to homeowners renters are worse off than they were before. And that means that a typical renter is less and less able to afford a typical rental unit, which is one reason for all the doubling-up of rental households.

As it is, with the help of tax-exempt revenue bonds, depreciation and other incentives, the rental market is holding its own and providing shelter for Americans who cannot afford to buy homes. But if the Treasury gets its way with its tax proposal, the new rental market would be all but wiped out.

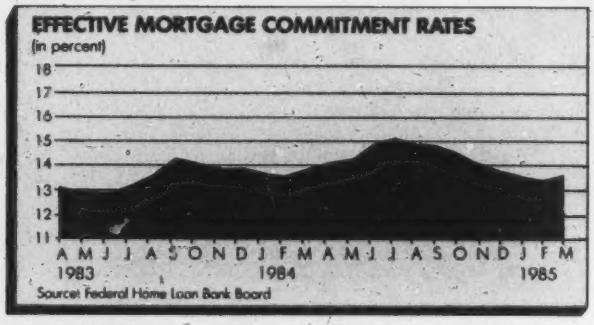
OUTLOOK/STATISTICS



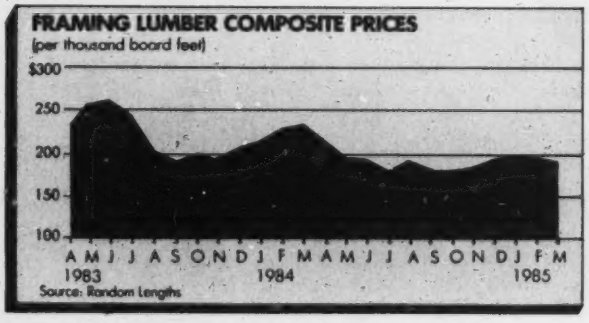
Starts jumped a surprising 16% in March to an annual rate of 1.9 million. Apartment starts accounted for most of the increase, surging 54% following a 39% plunge the month before. March's total starts rate was the highest since last April and 11.5% higher than a year earlier.



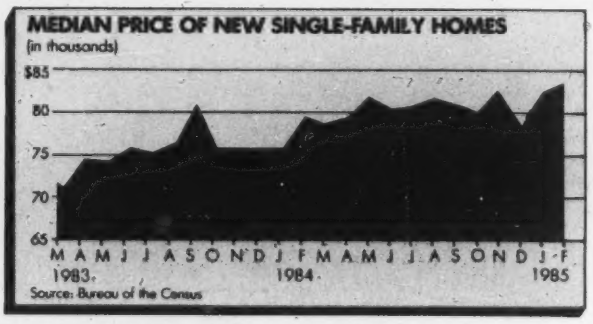
Sales rose 6% in February to an annual rate of 638,000 from a downwardly revised January rate. February sales were 8.9% lower than a year earlier.



After declining for seven straight months, fixed rates rose 25 basis points in March to 13.70%. Uncapped adjustable rates slipped three basis points to 11.62% in March.

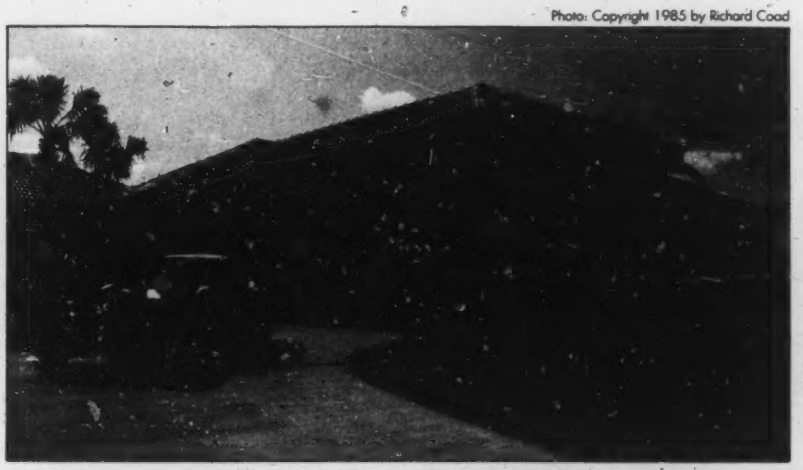


For the second straight month lumber prices declined by 3%, falling in March to $187 per thousand board feet. The March price was 20% lower than a year earlier.



The median sales price edged up 0.6%, or $500, in February to $83,100 from a downwardly revised January price. The February price was $3,900 or 5% higher than a year earlier.

Photo: Copyright 1985 by Richard Coad



A replica of an antique Mercedes 540 K Magnum and a 1985 Cadillac with a custom-designed interior grace the drive of a $525,000 mansion built by Rob Brohn Construction. The house sold during the two weeks of "Art in Architecture."

for architects' fees and miscellaneous expenses. The interior designers—Robb & Stucky, The Lili Corporation Unltd., Berta Hall & Associates, Joe-Hal Faughn and Betsy Godfrey Interiors—provided furnishings at cost for a silent auction at the close of the charity event.

"We decided to do something a little different from the usual parade of homes or designer show house," says Bonnie Sharp, coordinator for the event. "We got the architects, builders and designers working together as a team right from the beginning to create a total living environment." Enhancing that environment were the opulent props, such as works of art created especially for the houses by local artists, and Cadillacs with interiors custom-designed by each home's decorator. "Everyone worked together to give the homes different personalities while keeping the overall flow of design," says Sharp. "We wanted to show that a house can, and should be, an art form."

"Art in Architecture" ran for two weeks in February. It included tours, seminars, fashion shows and invitation-only brunches, lunches and dinners. In all, the event raised $56,000. Most of it will help fund the Orlando Regional Medical Center's proposed Children's Hospital and Perinatal Center. And

Etched glass and French double doors open into the family room of the mansion built by Fuller & Associates. Berta Hall & Associates did the interior design.

about $5,000 will be used as seed money to establish a craftsmanship apprentice program. "We want to help craftsmen who want to learn the dying arts—fine stonework, or ornamental ironwork, or stained glass—for example," says Sharp. The program will be locally oriented and administered by a board of area architects, builders and interior designers.

"Most of the funds for next year's 'Art in Architecture' will be used for the apprentice program," says Sharp. She adds that enthusiasm for the event was so great that she's thinking of "packaging" the concept and selling it to developers in other cities. "After all, the proof of the pudding is in the selling," she says. "And the builders are thrilled—one house sold during the event, and there's a contract pending on another. The developer is happy too: during the 14-day event, five other Butler Bay houses and five lots were sold."

June Fletcher, features editor

MARKETING

U.S. WON'T TURN INTO NATION OF RENTERS

Although the various tax simplification proposals all would place an additional burden on the cost of homeownership, they won't turn America into a nation of renters, says William Apgar of the Harvard-MIT Joint Center for Urban Studies.

Apgar, who heads the center's Housing Futures Program, bases his contention on the program's latest survey of consumer attitudes taken in December. While the results have not yet been completely tabulated, he says preliminary indications are that those who maintain that ownership rates will fall if owners lose their precious tax deduction have "underestimated the tenacity of the American public in the pursuit of their ownership goals."

The Housing Futures Program, sponsored by a diverse group of companies and organizations interested in the long-term health of housing, monitors forces that shape the industry's future. To examine the importance of taxes on consumer attitudes about homeownership, the survey asked 3,130 owners who purchased single-family homes in the last year if they would have done so if the interest portion of their monthly mortgage payment were not deductible. Forty-six percent said they would.

Although interest deductibility for primary homes is not on the table as part of any of the three major tax re-

form proposals, Apgar believes that "the certainty with which (half) the respondents said yes suggests how important the ownership goal is. Evidently, they will dig in their heels and find the resources to buy a home anyway. That's a tribute to the importance of homeownership."

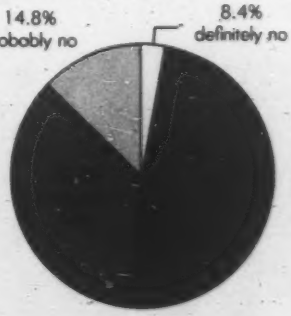
Only 23 percent said they would not or probably would not have purchased their homes without the deduction, but the percentage of negative responses rises to 33 percent in households age 30 or younger. Apgar interprets this to mean that tax reform would have its greatest effect on first-time buyers, not on higher-income, repeat homeowners. Most other forecasts have suggested that tampering with deductions would hit the move-up market hardest. (The remaining 30 percent said they *probably* would have purchased anyway. See pie chart.)

"Those in the upper-income levels would be hurt the most," Apgar explains, "but they have the strongest ability to overcome" the impact that tax reform would have on housing values. He warns, however, that younger households realize that "any significant change in the rules could substantially affect their ability to qualify for financing."

Lew Sichelman, a contributing editor to BUILDER

SURVEY OF SINGLE-FAMILY HOME BUYERS, 1984*

Would you have purchased your home if the interest rate portion of your monthly mortgage were not deductible?



*Total respondents numbered 3,130
Source: The Housing Futures Program of the Harvard-MIT Joint Center for Urban Studies

FINANCE

BLUE LIGHT SPECIAL: HOME MORTGAGES "TO GO"

It sells Smurfs. It sells socks. It sells pink plastic shower caps. And now, for the first time, it also sells home mortgages.

"It" is K-Mart, the nation's second largest retailer, with 1984 sales exceeding $20 billion. Early this year the discount department store signed agreements with five different companies to provide a variety of financial services in their outlets. Among them was Berg Enterprises, Inc., a New Jersey-based real estate firm, which will provide mortgage banking services through its subsidiary, Margaretten & Company.

Beginning next month, K-Mart will open mortgage desks in nine stores in New Jersey and four in Las Vegas. ("We picked Las Vegas because we can afford an extensive TV campaign there," says Chairman Kenneth Berg.) The desks will be linked by computer to full-service Margaretten offices. At no charge, a shopper will be able to get a computer printout telling him how large a mortgage he can afford and will be issued a Margaretten credit card. The card will indicate to brokers and bankers that he's already prequalified for a line of credit by Margaretten. But he's under no obligation to initiate a loan through Margaretten (and must go to a full-service office if he decides to.) If he does choose a Margaretten loan, he gets $150 in merchandise checks from K-Mart.

Right now few home buyers shop for mortgages directly, but K-Mart is banking on their customers' sense of familiarity with their stores to break down psychological barriers. "We've designed facilities so shoppers won't be intimidated," says Jon Hartman, assistant treasurer for K-Mart. "There's a counter area for casual conversation and a sitting area for privacy."

If all goes well, Margaretten also will institute a home equity loan program by the end of the year. "We'll offer very competitive rates—about 2 percent over prime," says Berg.

K-Mart shoppers in Chicago also will be able to initiate home equity and home improvement loans through USA Consumer Credit Corporation, which is starting a five-store pilot project for its installment loan business.

In offering its customers financial services, K-Mart is following the lead of Sears, Roebuck and Company. Sears sells insurance through Allstate, securities through Dean Witter Reynolds and real estate through Coldwell Banker.

"Our history is different from K-Mart's," says Sears Corporate Media Relations Director Douglas Fairweather. "They work out joint market agreements with companies. We acquire companies." Sears offers its customers mortgage money through its Sears Savings Bank (formerly Allstate Savings and Loan), but Fairweather says its real estate subsidiary "doesn't necessarily steer customers to them. There's no automatic link."

Sears does buy mortgage-backed securities from its own and other banks, which Dean Witter pools and sells to investors. And, they're keeping an eye on K-Mart's new venture. "We have no specific plans to expand our mortgage banking services at this time," says Fairweather. "But we're also not adverse to learning from competitors."

June Fletcher

ENERGY

ENERGY SAVER PROGRAM GETS LENDER SUPPORT

The Denver Homebuilders Association has developed a comprehensive set of energy guidelines that should make it easier for builders to qualify local buyers of energy-efficient homes. The program will kick off with a major publicity effort—assisted by the local utility—this summer or fall.

The guts of the new Colorado Energy $aver Homes Program (CE$) is its prescriptive list of energy-conserving features—called the Base Program—designed to reduce space heating bills by 50 percent compared to average new home construction practices. Three base program areas re-

ECONOMY

STARTS STRONG THROUGH SECOND QUARTER

The housing market is improving but it's not as hot as it was at this time last year.

Starts in metropolitan areas are expected to increase during the second quarter (April-June) compared with the previous two quarters but are expected to fall 14.5 percent from the steamy pace of last year's second quarter, according to NAHB's latest Quarterly Metropolitan Housing Starts Forecast.

The forecast, prepared by NAHB's economics division, estimates starts in 91 metropolitan areas throughout the country for the coming quarter.

The highest number of starts this quarter is expected in the Los Angeles-Anaheim-Riverside market, largely because the federal government has changed its definitions of a number of metro areas, adding territory to some, like Los Angeles, and taking it away from others.

Other top 10 metro areas for starts in the second quarter are, in order, Dallas-Fort Worth, Atlanta, Phoenix, San Diego, San Francisco-Oakland-San Jose, Tampa-St. Petersburg-Clearwater, Washington, D.C., Houston-Galveston and Denver-Boulder. But only San Diego and Tampa are forecast to have more starts this quarter than in the same period last year.

Second quarter starts will be higher in every region compared with the previous two quarters. But compared with the second quarter of 1984, only the North Central region will see a modest increase. The biggest decline from second quarter to second quarter is forecast for the South, down 18.5 percent.

During the same period, multifamily starts are forecast to drop nearly 23 percent and single-family starts are expected to dip 7.4 percent.

The data shown here include the number of starts in each metro area, arranged alphabetically by region, for the second, third and fourth quarters of 1984 and the first quarter of 1985 and projected starts for the second quarter of 1985.

Figures for the first quarter of this year also are estimates, as March starts were not available when the forecast was compiled.

The following tables also show the projected percentage change in starts between the second quarter of last year and the second quarter of this year.

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: UNITED STATES TOTAL

1984			1985		
Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
318,320	276,815	240,777	222,016	272,033	−14.5%

NOTE: The federal government has revised its definitions of the nation's Metropolitan Statistical Areas (MSAs), adding territory to many areas, subtracting it from some others. As a result, the starts figures for past quarters generally have been revised upward.

Source: Copyright National Association of Home Builders

Northeast

Starts in Northeast metro areas are forecast to fall 12.7 percent to 21,825 from second quarter to second quarter. However, that will be the highest level since the third quarter of 1984. Activity from second quarter to second quarter will decline in Boston and Philadelphia, increase in New York City, Pittsburgh and Rochester and hold steady in most other major markets.

South

Metro starts are expected to drop 18.5 percent in the second quarter to 123,291 compared with the robust second quarter of last year. Activity will be down in almost every major market. Only a few Florida cities—Lakeland-Winter Haven, Fort Lauderdale and

CONTINUED ON PAGE 104